NOTES TO THE FINANCIAL STATEMENTS

NOTE I. SUMMARY OF SIGNIFICANT ACCOUNTING POLICIES

The accompanying general purpose financial statements of the State of Colorado have been prepared in conformance with generally accepted accounting principles for governments as prescribed by the Governmental Accounting Standards Board (GASB), which is the primary standard setting body for establishing governmental accounting and financial reporting principles.

The preparation of financial statements in conformity with generally accepted accounting principles requires management to make estimates and assumptions that affect the reported amounts of assets, liabilities, the disclosed amount of contingent liabilities at the date of the financial statements, and the reported amounts of revenues, expenditures/expenses during the reporting period. Actual results could differ from those estimates.

A. REPORTING ENTITY

For financial reporting purposes, the State of Colorado's primary government includes all funds and account groups of the state, its departments, agencies, and state funded institutions of higher education that make up the state's legal entity. The state's reporting entity also includes those component units, which are legally separate entities, for which the state's elected officials are financially accountable.

Financial accountability is defined in GASB Statement No. 14, "The Financial Reporting Entity." The state is financially accountable for those entities for which the state appoints a voting majority of its governing board, and either is able to impose its will upon the entity or there exists a financial benefit or burden upon the state. For those entities that the state does not appoint a voting majority of the governing board, GASB Statement No. 14 includes them in the reporting entity if there is a fiscal dependency. Entities that do not meet the criteria for inclusion may still be included if it would be misleading to exclude them.

Discretely presented in the combined financial statements for the state are the following entities:

- Denver Metropolitan Major League Baseball Stadium District
- University of Colorado Hospital Authority
- Colorado Water Resources and Power Development Authority
- Colorado Uninsurable Health Insurance Plan
- Colorado Travel and Tourism Authority

With the exception of the University of Colorado Hospital Authority, each governing board member for these entities is appointed by the Governor and confirmed by the Senate. The board of the University of Colorado Hospital Authority is appointed by the Board of Regents of the University of Colorado.

The University of Colorado Hospital Authority, the Colorado Uninsurable Health Insurance Plan, and the Colorado Travel and Tourism Authority are included because they present a financial burden upon the state. The Baseball Stadium District is included because its board serves at the pleasure of the Governor, and therefore, the state is able to impose its will upon the entity. The Water Resources and Power Development Authority is also included because the state is able to impose its will upon the authority.

Detailed financial information may be obtained directly from these organizations.

The following related organizations, for which the state appoints a voting majority of their governing boards, are not part of the reporting entity based on the criteria of GASB Statement No. 14:

- Colorado Compensation Insurance Authority
- Colorado Educational and Cultural Facilities Authority
- Colorado Student Obligation Bond Authority
- Colorado Health Facilities Authority
- Agricultural Development Authority
- Colorado Housing and Finance Authority
- Colorado Sheep and Wool Authority
- Colorado Beef Council Authority
- Fire and Police Benefit Association
- The State Board of the Great Outdoors Colorado Trust Fund
- Various College and University Foundations

Even though the appointment of governing boards of these authorities is similar to those included in the reporting entity, the state does not impose its will, nor does it have a financial benefit or burden relationship with these entities. Detailed financial information may be obtained directly from these organizations.

The state has entered into a joint operating agreement with the Huerfano County Hospital District to provide patient care at the Colorado State Veterans Nursing Home at Walsenburg. The facility is owned by the state but is operated by the hospital district under a twenty year contract that is renewable at the district's option for successive ten year terms up to 99 years from the original commencement date in November 1993.

The state's contract with the district states that the district is responsible for funding the operating deficits of the nursing home; however, since the state owns the nursing home, it retains ultimate financial responsibility for the home. Only the state's share of assets, liabilities, revenues and expenses associated with the joint operation are shown in these financial statements. These include the land, building, and some of the equipment for the nursing home as well as revenues and expenses associated with the state's on-site contract administrator. The pass-through by the state of U.S. Veterans Administration's funds to the district is also shown as revenue and expense of the state.

B. FUND STRUCTURE

Primary Government

The financial activities of the state are organized on the basis of individual funds and account groups. Each fund is a separate accounting entity, in which the operations are recorded in discrete sets of self-balancing accounts that comprise the assets, liabilities, fund equity, revenues and expenditures, or expenses, of that entity. For financial statement presentation, similar funds have been combined into fund types and categories.

GOVERNMENTAL FUNDS

General Fund

Transactions related to resources obtained and used for those services traditionally provided by state government, which are not accounted for in other funds, are accounted for in the General Fund. Resources obtained from federal grants which support general governmental activities are accounted for in the General Fund consistent with applicable legal requirements.

Special Revenue Funds

Transactions related to resources obtained from specific sources, and restricted to specific purposes are accounted for in the special revenue funds. The individual funds include the Highway Fund, the Wildlife Fund, the Labor Fund, the Gaming Fund, and the Water Projects Construction Fund.

Debt Service Fund

This fund accounts for the accumulation of resources, principally transfers from other funds, for the payment of long-term debt principal and interest. The primary debt serviced by this fund consists of certain long-term lease purchase agreements.

Capital Projects Fund

Transactions related to resources obtained and used for acquisition, construction, or improvement of state owned facilities are accounted for in the capital projects fund.

PROPRIETARY FUNDS

Enterprise Funds

These funds account for operations that are financed and operated in a manner much like private business enterprises. Costs of providing goods and services to the general public, including depreciation, are recovered primarily through user charges.

Internal Service Funds

These funds account for the operations that provide goods or services on a cost-reimbursement basis to state agencies.

FIDUCIARY FUND TYPES

Trust and Agency Funds

These funds account for assets held by the state in a trustee capacity or as an agent for other organizations or individuals. They include agency funds, expendable and nonexpendable trust funds.

Agency funds are used to account for assets held for other funds, governments, or individuals. They are custodial in nature and do not involve the measurement of operations.

The expendable trust fund classification is used when both the principal and revenue earned may be expended for purposes designated by the trust agreement.

Nonexpendable trust funds require that the principal of the fund remains intact while only the earnings of the fund are expendable.

Individual investment trust funds are used to account for investments which are not in the treasurer's investment pool, but managed by the state treasurer for external entities.

ACCOUNT GROUPS

General Fixed Assets Account Group

Land, buildings, equipment and other capital assets, of the governmental fund types are accounted for in this group. Capital assets of the proprietary, trust, and the college and university funds are recorded in their respective funds and may be depreciated there. Infrastructure is not recorded in the state's accounting system.

General Long-term Debt Account Group

This group accounts for long-term liabilities of the governmental type funds, such as general liability, lease purchase obligations, employee leave obligations, and employee workers' compensation claims. It also accounts for short-term risk management liabilities for which expendable financial resources are not available. Long-term obligations of the proprietary funds, trust funds, and the college and universities are accounted for in their respective funds.

COLLEGE AND UNIVERSITY FUNDS

These funds account for the operations of the state supported system of higher education. The College and University Funds consist of the following funds:

Current Funds Unrestricted account for economic resources which are expendable for any purpose in accomplishing the institutions' primary objectives.

Current Funds Restricted account for resources received from donors or other outside agencies, primarily the federal government, that are restricted for specific purposes.

Loan Funds account for resources available for student loans.

Endowment Funds account for resources contributed by donors. While the principal portion of the contribution must remain intact, earnings may be added to the principal or expended for restricted or unrestricted purposes.

Plant Funds account for resources available, acquisition costs, debt service requirements, and liabilities related to acquiring or repairing institutional properties.

Agency Funds account for resources held by the institution acting in the capacity as agent for distribution to designated beneficiaries.

Component Units

The Denver Metropolitan Major League Baseball Stadium District uses proprietary fund accounting in preparation of its financial statements. The Colorado Uninsurable Health Insurance Plan's uses practices prescribed or permitted by the state's Division of Insurance. However, the Plan's statements have been recast to conform to Generally Accepted Accounting Principles. The financial information for both of these entities is presented as of December 31, 1997.

The Colorado Water Resources and Power Development Authority uses proprietary fund accounting for all its funds with the exception of governmental fund accounting for its expendable trust fund and its agency fund. The Authority's financial information is presented as of December 31, 1997.

The University of Colorado Hospital Authority and the Colorado Travel and Tourism Authority use proprietary fund accounting for their operations. Financial information for the Hospital Authority is presented as of June 30, 1998. Financial information for the Travel and Tourism Authority is presented as of December 31, 1997.

C. BASIS OF ACCOUNTING

Primary Government

The accounting and financial reporting treatment applied to a fund is determined by its measurement focus. All governmental funds and expendable trust funds are accounted for using a current financial resources measurement focus. Nonexpendable trust funds and proprietary funds are accounted for on a flow of economic resources measurement focus.

Governmental fund types, expendable trust funds, and agency funds are reported on the modified accrual basis. This basis of accounting recognizes revenues when they are measurable and available to finance current operations or to liquidate liabilities existing at fiscal year-end.

Historical data, adjusted for economic trends, is used in the estimation of the following accruals:

- Sales, use, liquor, and cigarette taxes are accrued based on filings received and an estimate of filings due by June 30th.
- Net income taxes from individuals, corporations, and trusts are accrued based on current income earned by the taxpayer prior to June 30th. Quarterly filings, withholding statements, and other historical data are used to estimate the taxpayer's current income. The revenue is accrued net of an allowance for uncollectable taxes.

Revenues earned under the terms of agreements with other governments or private sources are recorded at the time that the related expenditures are made.

Expenditures are recognized during the period in which the fund liability is incurred, except for accumulated employee leave time, principal and interest on long-term debt, which is recorded when due, risk management liabilities in excess of the available current financial resources appropriated for that purpose, and inventories which are generally considered expenditures when consumed.

Special reporting treatment at year-end is accorded to encumbrances. In the General Fund, a reserve for encumbrances is recorded at year-end for the appropriation that will be rolled-forward to cover encumbrances. In the Capital Projects Fund and the Highway Fund, a reserve for encumbrances is established for the contracted legal obligations of the funds.

Proprietary fund types and nonexpendable trust funds are reported on an accrual basis. Using this basis, revenues are recognized when earned, and expenses, including depreciation, are recognized when incurred.

College and university funds are reported on the accrual basis, except for depreciation related to plant fund assets which is generally not recorded, and revenues and expenditures related to summer school programs which are recorded primarily in the subsequent fiscal year in accordance with the National Association of College and University Business Officer's College and University Business Administration.

The state has determined that proprietary and nonexpendable trust funds will apply all applicable GASB pronouncements, regardless of issue date, as well as the following pronouncements issued on or before November 10, 1989: FASB Statements and Interpretations, Accounting Principle Board Opinions, and Accounting Research Bulletins, unless those pronouncements conflict with, or contradict, GASB pronouncements.

Component Units

The University of Colorado Hospital Authority has elected to adopt the provisions of the American Institute of Certified Public Accountants' Audit and Accounting Guide for Health Care Organizations, which are required for financial statements for periods beginning on or after June 15, 1996. In conjunction with such provisions, the hospital has qualified as a governmental entity. In applying governmental GAAP, the hospital has elected to apply the provisions of all relevant pronouncements of FASB, including those issued after November 30, 1989 that do not conflict with or contradict GASB pronouncements.

D. ELIMINATIONS

Substantially all intrafund transactions and balances of the primary government have been eliminated. Substantially all interfund transactions are classified as operating transfers-in or operating transfers-out after the revenues and expenditures/expenses are reported on each of the operating statements.

E. INSURANCE

The state has agreements with the Colorado Compensation Insurance Authority (CCIA), a related party, to administer a Paid Loss/Retro Plan for workers' compensation insurance claims through June 30, 1996. For claims arising after that date, the state is self-insured for workers' compensation. The state reimburses CCIA for the current cost of claims paid and related administrative expenses. Actuarially determined liabilities are accrued for claims to be paid in future years.

The state insures its property through private carriers and is self-insured for general liability for both its officials and employees.

F. TOTAL COLUMN ON COMBINED STATEMENTS

The total columns on the combined statements for the primary government are captioned "Memorandum Only" to indicate that they are presented only to facilitate financial analysis. Data in these columns do not present financial position, results of operations, or cash flows in conformity with generally accepted accounting principles. Nor are they comparable to a consolidation as interfund eliminations have not been made in the aggregation of this data.

G. CASH AND CASH EQUIVALENTS

Primary Government

For purposes of reporting cash flows, cash and cash equivalents are defined as cash-on-hand, demand deposits, certificates of deposit with financial institutions, and pooled cash with the state treasurer.

Component Units

The University of Colorado Hospital Authority and the Colorado Uninsurable Health Insurance Plan considers highly liquid investments with an initial maturity of three months or less to be cash equivalents.

The Denver Metropolitan Major League Baseball Stadium District, and the Colorado Water Resources and Power Development Authority consider investments with a maturity of three months or less when purchased to be cash equivalents.

The Colorado Travel and Tourism Authority considers highly liquid debt instruments with maturities generally of three months or less to be cash equivalents.

H. INVENTORY

Inventories of the various state agencies primarily comprise finished goods inventories held for resale by Correctional Industries, and consumable items such as office and institutional supplies, fuel, and maintenance items.

Inventories of the governmental funds are stated at cost, while inventories of the proprietary funds are stated at the lower of cost or market. The state uses various valuation methods (FIFO, average, etc.) depending upon the state agency. The method used in each agency is consistent from year to year.

Consumable inventories that are material are expended at the time they are consumed. Immaterial consumable inventories are expended at the time of purchase, while inventories held for resale are expensed at the time of sale.

I. INVESTMENTS

For the primary government, items classified as investments, including those held by the state treasurer and represented as pooled cash, are both short and long-term investments. These are stated at fair value except for certain money market investments (See Note III-G). Investments that do not have an established market are reported at their estimated fair value.

The state treasurer records interest based on book yield as adjusted for amortization of premiums and discounts.

J. PROPERTY, PLANT, AND EQUIPMENT

Primary Government

Capital assets are carried at cost on the balance sheet. Donated capital assets are carried at their fair market value at the date of donation. The minimum dollar amount of assets that must be capitalized is $5,000.

Generally, the state does not capitalize interest during the construction of general fixed assets. General fixed assets are not depreciated. Assets in proprietary and nonexpendable trust are depreciated using the straight-line method. Assets in the college and university funds may be depreciated using the straight-line method.

The following useful lives are used for depreciation:

Buildings	25-40 years
Improvements other than buildings	10-17 years
Furniture, machinery and equipment	5-12 years

Component Units

The Denver Metropolitan Major League Baseball Stadium and the University of Colorado Hospital Authority capitalize interest during the construction of fixed assets.

K. DEFERRED REVENUE

With the exception of higher education funds, revenues received from the federal government and other program sponsors are deferred until such time as the related expenditures are made. Also, it is the policy of the state's higher education institutions to defer summer school tuition to the following fiscal year.

L. ACCRUED COMPENSATED ABSENCES LIABILITY

Primary Government

State law concerning the accrual of sick leave was changed effective July 1, 1988. After that date all employees in classified permanent positions within the State Personnel System accrue sick leave at the rate of 6.66 hours per month. Total sick leave per employee is limited to their respective accrued balance on July 1, 1988 plus 360 additional hours. After earning the maximum accrual each employee may convert five hours of sick leave to one hour of annual leave. Employees are paid for one-fourth of their unused sick leave upon death or retirement.

Annual leave is earned at increasing rates based upon employment service longevity. In no event can a classified employee accumulate more than 42 days of annual leave at the end of a fiscal year. Employees are paid 100% of their annual leave balance upon leaving state service.

Compensated absence liabilities related to the governmental funds are recorded in the Long-Term Debt Account Group. The current portion of the compensated absence liability accrual is not recognized in the governmental funds as it is not expected to be funded out of current available resources. For all other fund types, both current and long-term portions are recorded as individual fund liabilities.

Component Units

Employees of the University of Colorado Hospital Authority use paid time off (PTO) for vacation, holidays, short-term illness, and personal absences. Extended illness pay (EIP) is used to continue salary during extended absences due to medical disability or serious health conditions. Both PTO and EIP earnings are based on length of service. The hospital records PTO expense as earned. Extended illness pay earned as of June 30, 1998 and 1997 approximated $6.8 million and $6.2 million, respectively, of which $271,000 and $249,000, respectively, is expected to become payable and is accrued in the hospital's statements.

The Colorado Water Resources and Power Development Authority recognizes unused vacation benefits as they are earned.

M. FUND EQUITY

Reserved fund balances indicate that a portion of fund equity is not available for expenditure, or is legally segregated for a specific use. Designated fund balances are not legally segregated, but indicate tentative management plans for future use of funds.

The fund balance of the General Fund consists of a reserved and an unreserved portion. Amounts are reserved as provided by statute or as provided by generally accepted accounting principles. The unreserved portion of fund equity is available for future use as working capital or to be appropriated. Since the state is prohibited by its Constitution from incurring general obligation debt, the unreserved fund equity must be positive at year-end.

Reserves of the fund equity at June 30, include:

Reserved for Encumbrances - In the General Fund, this reserve is for the portion of the Fiscal Year 1997-98 appropriation that was encumbered for goods and services that were, due to extenuating circumstances, not received prior to June 30, 1998. Thus, the specific appropriation related to these items is rolled-forward to Fiscal Year 1998-99.

In the Special Revenue and Capital Projects Funds this reserve represents purchase orders, contracts and long-term contracts related to construction of major capital projects. Since the resources of these funds are received, in many cases, after the long-term contracts are executed and recorded as encumbrances, the undesignated reserve or portion reserved for other specific purposes may reflect a deficit. This deficit will be funded by future proceeds.

Reserved for Other Specific Purposes - These reserves are used to indicate that a portion of fund balance is restricted as to its use. The restriction of the representative assets may have been placed there by their donor in the case of fiduciary funds, by statute in the General and other governmental type funds, or reserved for special purposes such as the payment of debt principal in the case of the Debt Service Fund.

In the college and university funds, all fund balances with the exception of the Current Unrestricted Fund are reserved to indicate the restrictions of available assets to specific purposes of these funds.

Reserved for Long-Term Assets and Long-Term Receivables - These reserves in the governmental funds are used to reserve the portion of fund balance that relates to long-term interfund receivables and other long-term assets. These assets are not currently available for appropriation.

Reserved for Statutory Requirements - CRS 24-75-201.1(d)(III) requires that four percent of the amount appropriated for expenditure from the General Fund be reserved for that fiscal year. Article X, Section 20 (TABOR) of the State Constitution requires the reservation of three percent or more of the 1997-98 Fiscal Year Spending for emergencies. Fiscal Year Spending is defined in TABOR as all spending and reserve increases except for spending from certain excluded revenues. See Note II-E, Tax, Spending and Debt Limitations.

N. OUTSTANDING ENCUMBRANCES

Encumbrance accounting, under which purchase orders and contracts for expenditures of money are recorded in order to reserve that portion of the applicable appropriation, is employed as an extension of formal budgetary integration in all funds except the College and University Funds.

Encumbrances do not constitute expenditures or liabilities. They lapse at year-end unless specifically brought forward to the subsequent year, committing the subsequent year's available appropriation.

NOTE II. BUDGETS - LEGAL COMPLIANCE

A. BUDGETARY BASIS

The budgetary fund types used by the state differ from the generally accepted accounting fund types. These budgetary fund types are general, cash, and federal funds. For budgetary purposes, cash funds are all funds received by the state that have been designated to support specific expenditures. Federal funds are revenues received from the Federal government. General purpose revenues are not designated for specific expenditures.

Eliminations of transfers and intrafund transactions are not made in the budgetary funds if those transactions are under budgetary control. Thus, revenues and expenditures in these funds are shown at their gross amounts. This results in several instances of duplicate recording of revenues and expenditures. An expenditure of one budgetary fund may be shown as a transfer-in or a revenue in another budgetary fund, and then shown again as an expenditure in the second fund.

B. BUDGETARY PROCESS

The financial operations of the legislative, judicial, and executive branches of state government, with the exception of custodial funds or federal moneys not requiring matching state funds, are controlled by annual appropriation made by the General Assembly. The Transportation Department's portion of the Highway Fund is appropriated to the State Transportation Commission. Within the legislative appropriation, the Commission may appropriate the specific projects and other operations of the Department. In addition, the Commission may appropriate available fund balance from their portion of the Highway Fund.

The legislative appropriation is constitutionally limited to the unrestricted funds held at the beginning of the year plus revenues estimated to be received during the year as determined by the budgetary basis of accounting. The original appropriation by the General Assembly in the Long Appropriations Bill segregates the budget of the state into its operating and capital components. The majority of the capital budgets are accounted for in the Capital Construction Fund, with the primary exception being budgeted capital funds used for infrastructure.

The Governor has line item veto authority over the Long Appropriations Bill, but the General Assembly may override each individual line item veto by a two-thirds majority vote in each house.

General and cash fund appropriations, with the exception of capital construction, lapse at year-end unless executive action is taken to roll-forward all or part of the remaining unspent budget authority. Appropriations that meet the strict criteria for roll-forward are reserved at year-end. Since capital construction appropriations are generally available for three years after appropriation, significant amounts of the capital budgets remain unexpended at fiscal year-end.

The appropriation controls the combined expenditures and encumbrances of the state, in the majority of the cases, to the level of line item within the agency. However, several agencies are appropriated at the agency level, and the institutions of higher education are appropriated at the governing board level. Statutes allow the Judicial and Executive Branches, at year-end, to transfer legislative appropriations within departments for expenditures of like purpose. The appropriation may be adjusted in the following session of the General Assembly by a supplemental appropriation.

On the *Combined Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/Equity - Budgetary Basis - Budget and Actual,* the column titled Original Appropriation consists of the Long Appropriations Act including anticipated federal funds, special bills, and any statutorily authorized appropriations. The column titled Final Spending Authority includes the original appropriation, federal funds actually awarded, supplemental appropriations of the legislature, and other miscellaneous budgetary items.

C. OVEREXPENDITURES

Expenditures/expenses are determined using the modified accrual or accrual basis of accounting even if the accrual will result in an overexpenditure. If earned cash revenues plus available fund balance, and earned federal revenues, are less than cash and federal expenditures, then an overexpenditure exists even if the expenditures did not exceed the total legislative line item appropriation.

The state controller may allow certain overexpenditures of the legal appropriation with the approval of the Governor. If the controller restricts the subsequent year appropriation, the agency is required to seek a supplemental appropriation from the General Assembly or reduce their subsequent year's expenditures.

Overexpenditures existing at June 30, 1998, for which the controller has restricted a future appropriation are:

- The Medical Services Program of Medicaid in the Department of Health Care Policy and Financing overexpended their appropriation of general funds by $7,066,035. State statute does provide for unlimited overexpenditure authority for the Medicaid Program, however, the controller will restrict the full amount of the overexpenditure.

- The Infant Immunization Program in the Department of Health Care Policy and Financing overexpended $14,096 of their general funded appropriation. The controller will restrict the full amount of the overexpenditure.

- Mandated costs are case-specific costs incurred by the state to ensure that parties have appropriate access to legal representation in the court system. This line item in the Judicial Department's appropriation was overexpended by $186,893 in general funds even though the department had transferred $500,000 of budget authority from other lines in the department. The controller will restrict the full amount of the overexpenditure.

- Due to enrollments lower than expected, the unrestricted current funds of the Community College of Aurora ended the fiscal year with a deficit fund balance of $499,594. The controller will restrict the full amount of the deficit from their Fiscal Year 1998-99 appropriation.

- The Infant Immunization Program in the Department of Public Health and Environment was overexpended by $7,919 of cash funds. The controller will restrict the full amount of the overexpenditure.

Overexpenditures or fund deficits existing at June 30, 1998, for which the state controller will not restrict a future appropriation are:

- Pikes Peak Community College had a deficit fund balance of $605,547 at June 30, 1998 in their auxiliary/self-funded operations caused by new program start-up costs and the loss of several large contracts. Because the college hired a new director mid-year, who has enacted various revenue generating or expense reducing measures, and since the auxiliary/self-funded operations are not appropriated, the controller will not restrict any Fiscal Year 1998-99 appropriations of the college.

- A deficit fund balance of $88,655 occurred at June 30, 1998 in the Trade Name Registration Fund administered by the Department of Revenue. Because the department has enacted various expenditure reducing measures, and since the fund is not appropriated, the controller will not restrict any Fiscal Year 1998-99 appropriations for this deficit.

- Various line item appropriations in the Department of Personnel, specifically involving the Liability and Property Premiums' line item, Central Services-Administration, Central Services-Reprographics, the Division of Administrative Hearings, and Network Services, were overexpended $1,995,685. Because the appropriations and revenues in total, of each of these programs, was sufficient to cover all program expenditures the controller will not restrict future appropriations.

- The Workers' Compensation Fund is a self-funded program. The actuarially determined current liabilities for this fund are recorded in the fund to the extent of available fund balance. At June 30, 1998, this resulted in an overexpenditure of $994,461 of the legislative appropriation. However, statute provides that overexpenditures are not to be considered an overexpenditure for purposes of CRS 24-75-109. For this reason the controller will not restrict the Fiscal Year 1998-99 appropriation.

As provided by statute, CRS 24-75-109, the Department of Health Care Policy and Financing has unlimited authority for Medicaid overexpenditures. The Department of Human Services is allowed $1 million of overexpenditures not related to Medicaid and unlimited overexpenditures for self-insurance of its workers' compensation plan. An additional $1 million of transfers and overexpenditure are allowed for the Judicial Branch. Statute also allows overexpenditures up to $1 million in total for the remainder of the executive branch.

A separately issued report comparing line item expenditures to authorized budget is available upon request from the State Controller's Office.

D. BUDGET TO GAAP RECONCILIATION

The *Combined Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/Equity, Budget and Actual - All Budgeted Funds* compares those revenues and expenditures which are legislatively appropriated or otherwise legally authorized. College and university funds, with the exception of the state appropriated amounts are excluded from this statement.

Certain expenditures on a generally accepted accounting principle (GAAP) basis such as bad debt expense and depreciation, are not budgeted by the General Assembly. These expenditures are shown as "GAAP Expenditures Not Budgeted" on the *Combined Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/-Equity, Budget and Actual - All Budgeted Funds*.

Some transactions considered expenditures for budgetary purposes, such as capital purchases in proprietary fund types, are not expenditures on a GAAP basis. These expenditures are shown as "Budgeted Non-GAAP Expenditures." Some transactions considered revenues for budgetary purposes, such as intrafund sales, unrealized gains/losses on investments, and the current year TABOR liability, are not revenues on a GAAP basis. These are shown as "GAAP Revenue Adjustments." The inclusion of these revenues and expenditures in the *Combined Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/-Equity, Budget and Actual - All Budgeted Funds* is necessary to reconcile fund balance.

A reconciliation of the *Combined Statement of Revenues, Expenditures/Expenses, and Changes in Fund Balances/-Equity, Budget and Actual - All Budgeted Funds* to the fund balances of the GAAP fund types follows:

(DOLLARS IN THOUSANDS)

	GOVERNMENTAL FUND TYPES			
	GENERAL	SPECIAL REVENUE	DEBT SERVICE	CAPITAL PROJECTS
BUDGETARY BASIS:				
Revenues and Transfers-In:				
General Funded	$ 5,244,281	$ -	$ -	$ 258,687
Cash Funded	2,397,941	1,766,961	32,618	37,611
Federally Funded	1,951,526	263,021	-	9,676
Sub-Total Revenues and Transfers-In	9,593,748	2,029,982	32,618	305,974
Expenditures/Expenses and Transfers-Out				
General Funded	4,862,645	-	-	405,285
Cash Funded	2,349,889	1,601,551	32,294	28,038
Federally Funded	1,957,271	263,021	-	9,626
Expenditures/Expenses and Transfers-Out	9,169,805	1,864,572	32,294	442,949
Excess of Revenues and Transfers-In Over (Under) Expenditures and Transfers-Out	423,943	165,410	324	(136,975)
FUND BALANCE, JULY 1 - BUDGETARY BASIS	851,228	637,641	4,151	532,060
Add: Budgeted Non-GAAP Expenditures	605	10,838	-	-
Increase/(Decrease) for GAAP Expenditures Not Budgeted	108,976	(17,346)	-	13,034
Increase/(Decrease) for GAAP Revenues Adjustments	(665,531)	8,043	-	(11,499)
Increase/(Decrease) for Non-Budgeted Funds	(6)	-	-	-
Addition of Northeastern Junior College	-	-	-	-
Prior Period Adjustments	(1,204)	(670)	-	1,566
FUND BALANCE, JUNE 30 - GAAP BASIS	$ 718,011	$ 803,916	$ 4,475	$ 398,186

E. TAX, SPENDING, AND DEBT LIMITATIONS

Certain state revenues, primarily taxes and fees, are limited under Article X, Section 20 (TABOR) of the State Constitution. The growth in these revenues from year to year are limited to the rate of population growth plus the rate of inflation. The constitution also requires voter approval for any new tax, tax rate increase, or new debt. These limitations apply to the state as a whole, not to individual funds, departments or agencies of the state. Annual revenues that exceed the constitutional limitation must be refunded, unless voters approve otherwise.

The state exceeded the revenue growth limitation in Fiscal Year 1997-98. A liability was accrued in the General Fund as a reduction of tax revenues for the amount exceeding the limitation ($563.2 million). The Fiscal Year 1997-98 and still remaining Fiscal Year 1996-97 liabilities are shown on the *Combined Balance Sheet - All Fund Types and Discretely Presented Component Units* as TABOR Refund Liability.

CRS 24-75-201 requires that the accrual of the TABOR Refund not be included in the General Fund budgetary fund balance (General Fund Surplus), in the year in which the excess revenues were accrued. The budgetary fund balance is restricted in the following year, except for any excess revenue amount the voters authorize the state to retain.

A separately issued audited report of TABOR computations for Fiscal Year 1997-98 will be available from the State Controller's Office in early 1999.

PROPRIETARY FUND TYPES		FIDUCIARY FUND TYPES	ACCOUNT GROUPS			
ENTERPRISE	INTERNAL SERVICE	TRUST & AGENCY	GENERAL FIXED ASSETS	GENERAL LONG-TERM DEBT	COLLEGE AND UNIVERSITY FUNDS	**TOTAL PRIMARY GOVERNMENT**
$ -	$ -	$ -	$ -	$ -	$ -	$ 5,502,968
459,663	178,256	427,157	-	-	1,211,319	6,511,526
68,436	-	12,667	-	-	665	2,305,991
528,099	178,256	439,824	-	-	1,211,984	14,320,485
-	-	-	-	-	-	5,267,930
445,272	179,659	323,891	-	-	1,183,853	6,144,447
58,237	-	12,637	-	-	669	2,301,461
503,509	179,659	336,528	-	-	1,184,522	13,713,838
24,590	(1,403)	103,296	-	-	27,462	606,647
79,917	29,312	1,211,122	1,378,184	-	2,597,684	7,321,299
1,293	706	43	-	-	-	13,485
(20,384)	(4,962)	(385)	-	-	(59)	78,874
404	133	12,173	-	-	1,659	(654,618)
-	-	318	197,579	-	218,059	415,950
-	-	-	-	-	14,762	14,762
223	(471)	796,326	-	-	20,304	816,074
$ 86,043	$ 23,315	$ 2,122,893	$ 1,575,763	$ -	$ 2,879,871	$ 8,612,473

NOTE III. OTHER ACCOUNTING DISCLOSURES

A. CASH AND POOLED CASH

Primary Government

The State Treasury acts as a bank for all state agencies, with the exception of the University of Colorado. Moneys deposited in the Treasury are invested until the cash is needed. Interest earnings on these investments are credited to the General Fund, unless a specific statute directs otherwise. Where a fund category has a deficit cash position, that deficit has been reclassified to an interfund payable to the General Fund. The detailed composition of the cash and investments is shown in the annual Treasurer's Report.

State agencies are authorized by various statutes to deposit funds in accounts outside the custody of the State Treasury. Legally authorized deposits include demand deposits and certificates of deposit. The state's cash management policy is to invest all major revenues as soon as the moneys are available within the banking system. Electronic transfers are used by the state to enhance availability of funds for investment purposes.

Colorado statutes require protection of public moneys in banks beyond that provided by the federal insurance corporations. The Public Deposit Protection Act in CRS 11-10.5-107(5) requires all eligible depositories holding public deposits to pledge designated eligible collateral having market value equal to at least 102% of the deposits exceeding those amounts insured by federal insurance.

The state maintains accounts and certificates of deposits for various purposes at locations throughout the state. Cash balances not required for immediate use are deposited either through the investment pool administered by the state treasurer or by the fund custodians.

The state categorizes its cash into three categories as to their risk:

- Category 1 is federally insured deposits, or deposits fully collateralized with securities held by the state or its agent in the state's name.
- Category 2 is deposits uninsured but fully collateralized with securities held by the pledging financial institution's trust department or agent in the state's name.
- Category 3 is uncollateralized. This includes any bank balance that is collateralized with securities held by the pledging financial institution, or by its trust department or agent, but not in the state's name.

At June 30, 1998, the state had cash balances in all funds with a carrying value of $826.1 million. The bank balances of these funds is categorized by risk as follows:

Risk Category	Bank Balance June 30
1	$ 687,200,704
2	154,288,493
3	224,812
TOTAL	$ 841,714,009

The Cash and Pooled Cash line on the financial statements includes $2,929.3 million of claims of the state's funds in the treasurer's pooled cash. At June 30, 1998, the treasurer had invested $2,867.6 million of the pool with the balance in demand deposits and certificates of deposit.

Component Units

At December 31, 1997 the Colorado Water Resources and Power Development Authority had federally insured cash deposits with a bank balance of $199,571 and deposits collateralized in single institution pools of $225,017.

At December 31, 1997 the Denver Metropolitan Major League Baseball Stadium District had federally insured cash deposits with a bank balance of $898,248. They also had $10,629,447 in money market funds invested in obligations of the U.S. Government or its agencies.

The University of Colorado Hospital Authority's deposits of cash fall under the provisions of the Colorado Public Deposit Protection Act of 1975 and are collateralized in single institution pools with securities held by the pledging institution's trust department or agent, but not in the authority's name.

B. NONCASH TRANSACTIONS IN THE PROPRIETARY FUND TYPES

In the proprietary fund types there are several noncash transactions that are listed on the *Combined Statement of Cash Flows, All Proprietary Fund Types and Similar Trust Funds and Discretely Presented Component Units*. The following explains those items:

- The state nursing homes, an enterprise activity, received $95,541 of fixed assets contributed by the Capital Construction Fund, and $20,990 from donated fixed assets. They also had a $12,829 loss on the disposal of fixed assets.
- Guaranteed Student Loan, an enterprise activity, assumed $105,847 in lease obligations for the purchase of equipment.
- Telecommunications, an internal service activity, received $114,974 of fixed assets from the Capital Construction Fund.
- Central Services, an internal service activity increased their capital lease obligations by $10,665,251 to acquire additional vehicles for their fleet program.
- The Land Board, a nonexpendable trust fund, had unrealized gains on their long-term investments of $9,349,462.
- The Controlled Maintenance Trust Fund, a nonexpendable trust fund, had unrealized gains on their long-term investments of $8,559,511.

Component Units

Certain noncash transactions are listed on the *Combined Statement of Cash Flows, All Proprietary Fund Types and Similar Trust Funds and Discretely Presented Component Units*. The following explains those items:

- The Denver Metropolitan Major League Baseball Stadium District reclassified the cost of property condemned by the City of Denver to a receivable account for $8,589.
- The Denver Metropolitan Major League Baseball Stadium District also accrued ballpark improvement costs of $80,637 as accounts payable.

C. RECEIVABLES

Primary Government

The taxes receivable of $783.5 million results from the recording of self-assessed taxes on the modified accrual basis. The other receivables of $281.9 million are net of a deduction of $119.2 million in allowance for doubtful accounts.

Component Units

The Colorado Water Resources and Power Development Authority had loans receivable of $279.0 million and $214.8 million at December 31, 1997 and 1996, respectively. During 1997 they made new loans of $73.0 million and canceled, or received repayments for existing loans of $8.7 million.

The University of Colorado Hospital Authority has a significant concentration of patient accounts receivable with Medicare (23 percent), Medicaid (10 percent), and Blue Cross (5 percent). However, the authority's management does not believe that there are any credit risks associated with these payers. Further, the authority continually monitors and adjusts its reserves and allowances associated with these receivables. Net patient service revenues under the Medicare and Medicaid programs in Fiscal Year 1998 and 1997 were approximately $99.1 million and $101.2 million, respectively.

Net patient service revenue is reported at the estimated net realizable amounts from patients, third-party payers, and others for services rendered, including estimated retroactive adjustments under reimbursement agreements with third-party payers. Retroactive adjustments are accrued on an estimated basis in the period the related services are rendered and adjusted in future periods as final settlements are determined.

D. INVENTORY

Inventories of $6.6 million in the General Fund at June 30, 1998, consisted of $6.3 million in consumable inventories, and $355,529 in food donated to the Department of Human Services.

E. PREPAIDS, ADVANCES, AND DEFERRED CHARGES

In the General Fund this account consists primarily of advances made by the Department of Human Services to the counties for their welfare expenditures. Charges in the College and University Funds related to summer school are deferred to Fiscal Year 1998-99 to match the accrual of summer school tuition.

F. INTERFUND BALANCES

Individual fund interfund receivable and payable balances at June 30, 1998 are:

(Amounts in Thousands)

Fund	Interfund Receivables	Interfund Payables
General Fund	$ 34,028	$ 24,870
Special Revenue Funds		
Highway	5,702	676
Wildlife	1,819	122
Labor	389	-
Gaming	6,579	29,113
Water Projects	215	-
Capital Projects Funds	9,392	1,723
Enterprise Funds		
Guaranteed Student Loan	-	13
State Lottery	-	17,962
Prison Canteens	17	-
Correctional Industries	615	138
Other Enterprise Activities	43	1
Internal Service Funds		
Central Services	3	-
Telecommunications	-	844
Highways	3	-
Public Safety	1	-
Capitol Complex	14	-
Administrative Hearings	7	-
Expendable Trust Funds	21,942	3,507
Nonexpendable Trust Funds	206	-
Agency Funds	1,824	5,265
College and University Funds	19,332	17,897
TOTALS	$102,131	$102,131

G. INVESTMENTS

Primary Government

The state holds investments both for its own benefit and as an agent for certain entities as provided by law. The state does not invest its funds with any external investment pool, rather, funds not required for immediate payments are administered by the authorized custodian of the funds or pooled and administered by the state treasurer (See Note III-H). The state implemented GASB Statement No. 31, Accounting and Financial Reporting for Certain Investments and for External Investment Pools on July 1, 1997. The state's discretely presented components units have not yet implemented Statement No. 31 because their reporting years are earlier than the state's.

The state treasurer maintains an agency fund for the Great Outdoors Colorado Program (GOCO), a related party. At June 30, 1998 and 1997 the treasurer had $63.5 million at fair value and $49.7 million at carrying value, respectively, of GOCO's funds on deposit and invested. The treasurer also maintains an individual investment trust fund for the Colorado Compensation Insurance Authority (CCIA), a related party. At June 30, 1998 and 1997, the treasurer had $779.1 million at fair value and $772.1 million at carrying value, respectively, of CCIA's funds on deposit and invested.

Colorado Revised Statutes 24-75-601.1 authorizes the type of investments that the state may hold. In general, the statute requires securities that are of the highest quality as determined by national rating agencies, those guaranteed by another state or the federal government, or a registered money market fund whose policies meet criteria set forth in the statute.

The state categorizes the custodial risks of its investments into the following categories:

- Category A is those investments which are insured or registered securities held by the state or its agent in the state's name.
- Category B is those investments which are uninsured and unregistered, with securities held by the counterparty's trust department or agent in the state's name.
- Category C is those investments which are uninsured and unregistered, with securities held by the counterparty or its agent, but not in the state's name.

Investments not categorized as to risk are mutual funds for which ownership is not evidenced by securities, and thus, cannot be categorized as to custodial risk.

The following table lists the state's investments by type and risk category:

(Amounts in Thousands)

Type of Investment*	Risk Category A	Risk Category B	Risk Category C	Fair Value
U.S. Government Securities	$ 1,968,415	$ 26,952	$ 25,872	$ 2,021,239
Bankers' Acceptance	76,917	-	-	76,917
Commercial Paper	582,207	-	-	582,207
Corporate Bonds	584,103	-	873	584,976
Corporate Securities	45,478	-	7,823	53,301
Repurchase Agreements	43,763	-	-	43,763
Asset Backed Securities	869,567	-	666	870,233
Mortgages	355,383	-	132	355,515
Mutual Funds	156,824	-	-	156,824
Other	191	3,939	-	4,130
Subtotal	$ 4,682,848	$ 30,891	$ 35,366	4,749,105
Uncategorized				266,499
TOTALS				$ 5,015,604

*Note: Amounts include the treasurer's pool and individual investment accounts.

The fair value of the state's investments are determined from quoted market prices except for money market investments which are reported at amortized cost which approximates market. The state's colleges and universities assign investment income associated with one fund to other funds as allowed by the AICPA College Guide Model.

Excluding the Individual Investment Trust Fund, the state had $648,810 in net realized gains from the sale of investments during Fiscal Year 1997-98. The calculation of realized gains and losses is independent of the calculation of the net change in the fair value of investments. Realized gains and losses on investments held in more than one fiscal year and sold in the current year were included as a change in the fair value of investments reported as a prior period adjustment.

The following schedule, excluding agency funds, shows the state's net unrealized gains and (losses) by fund type for Fiscal Year 1997-98 and the cumulative effect from prior years:

(Amounts in Thousands)

Fund Type	Fiscal Year 1997-98	Prior Years
General	$ 7,592	$ 2,386
Special Revenue	8,043	1,547
Debt Service	1	-
Capital Construction	1,533	1,566
Enterprise	403	224
Internal Service	134	85
Expendable Trust	270	191
Nonexpendable Trust	11,907	6,484
Investment Trust	22,774	17,543
College and University		
Current Funds	(843)	6,745
Loan Fund	(60)	117
Endowment Fund	3,790	1,349
Plant Funds	(3,061)	5,306
TOTAL	$ 52,483	$ 43,543

The following schedule reconciles deposits and investments to the financial statements for the primary government:

(Amounts in Thousands)

Footnote Amounts	Carrying Amount
Deposits (Note III-A)	$ 826,084
Investments	5,015,604
Total	$ 5,841,688
Combined Balance Sheet Amounts	
Cash and Pooled Cash	$ 3,662,561
Investments	1,891,042
Rights Under Deferred Compensation	288,085
Total	$ 5,841,688

Component Units

Colorado statutes specify investment instruments meeting defined rating and risk criteria in which governmental units may invest. The risk criteria are defined the same as for the primary government.

The University of Colorado Hospital Authority has adopted Statement of Governmental Accounting Standards Board No. 31 Accounting and Financial Reporting for Certain Investments and for External Investment Pools, which requires all debt and equity securities to be recorded at fair value. The fair values are based on quoted market prices, if available, or estimated using quoted market prices for similar securities. Interest, dividends, realized and unrealized gains and losses, based on the specific identification method, are included in non-operating income when earned.

Following are the Hospital Authority's investments. All of these investments are considered Category 1:

(Amounts in Thousands)

Type of Investment	Fair Value
U.S. Government Securities	$ 51,903
Corporate Bonds	42,082
Equity Securities	43,474
TOTALS	137,459

The following table lists the other component units' investments by type and risk category:

(Amounts in Thousands)

Type of Investment	Risk Category A	Risk Category B	Risk Category C	Carrying Amount	Market Value
U.S. Government Securities	$ 33,129	$ -	$ 8,242	$ 41,371	$ 42,464
Repurchase Agreements	-	-	87,626	87,626	87,626
Subtotal	$ 33,129	$ -	$ 95,868	128,997	130,090
Uncategorized				34,764	34,769
TOTALS				$ 163,761	$ 164,859

H. TREASURER'S INVESTMENT POOL

Participation in the treasurer's pool is mandatory for all state agencies with the exception of the University of Colorado. The treasurer determines the fair value of the pool's investments at each month-end for performance tracking purposes. Short-term realized gains and losses and interest earnings, adjusted for amortization of premium and discounts, are distributed monthly prorated to the average of the participant's daily balance during the month if the participant is authorizes to receive interest and investment earnings by statute.

Colorado Revised Statutes 24-36-113 authorizes the state treasurer to enter into collateralized securities lending agreements. During Fiscal Year 1997-98, the treasurer loaned U.S. government and federal agencies' securities held for the Colorado Compensation Insurance Authority to Morgan Stanley. Morgan Stanley pays the treasurer an agreed upon fee for use of these securities. Collateral is deposited and held in a custodial bank.

Currently, collateral held by the custodial bank includes A-rated or better domestic corporate bonds, however, the agreement allows for collateral to include government and federal agencies' securities as well. Corporate securities held as collateral must equal at least 105 percent of the market value of the loaned securities, while government securities must equal at least 102 percent of the market value. The treasurer does not have the authority to pledge or sell collateral securities without a borrower default, nor does the treasurer accept cash as collateral.

Morgan Stanley, acting as the principal, is directly responsible for the safeguarding of assets and carries a financial institution bond which is substantially in excess of the amount required by the New York Stock Exchange. On June 30, 1998, the market value of securities on loan was $261,685,784. The market value of the collateral securities pledged was $275,724,750.

State statutes permit the state treasurer to enter into reverse repurchase agreements. It is the policy of the treasurer to match maturities of the investments made with the proceeds of the reverse repurchase agreements to the securities underlying the reverse repurchase agreements. At June 30, 1998 the treasurer had no reverse repurchase agreements outstanding.

During the year the treasurer made reverse repurchase agreement transactions totaling $240.4 million. Interest charged or accrued on June 30, 1998, for these reverse repurchase agreements was $386,848. Due to arbitrage the treasurer had realized or accrued interest income on June 30, 1998 of $396,121 resulting in a net gain of $9,273 at fiscal year end.

I. PROPERTY, PLANT, AND EQUIPMENT

Primary Government

A summary of fixed assets by account groups and fund types follows:

(Amounts in Thousands)

	General Fixed Assets Account Group	Enterprise Funds	Internal Service Funds	Fiduciary Funds	College & University Funds	Totals
Land and Improvements	$ 202,591	$ 6,244	$ -	$ 7,549	$ 171,402	$ 387,786
Buildings and Improvements	852,534	22,577	847	29	1,522,608	2,398,595
Equipment	343,302	29,385	91,547	581	499,860	964,675
Library Books and Holdings	2,743	-	-	3,833	258,994	265,570
Construction in Progress	163,256	330	10,885	-	234,612	409,083
Other	11,337	58	16,978	-	828	29,201
Less: Accumulated Depreciation	-	(27,352)	(69,297)	(2)	(1,307)	(97,958)
Totals	$ 1,575,763	$ 31,242	$ 50,960	$ 11,990	$ 2,686,997	$ 4,356,952

A statement of changes in general fixed assets for the year ended June 30, 1998 is shown below:

(Amounts in Thousands)

	Beginning Balance July 1	Additions	Deductions	Net Change	Ending Balance June 30
Land and Improvements	$ 194,079			$ 8,512	$ 202,591
Buildings and Improvements	730,613			121,921	852,534
Equipment	335,565			7,737	343,302
Library Books and Holdings	3,003			(260)	2,743
Construction in Progress	104,514			58,742	163,256
Other	10,410			927	11,337
Totals	$ 1,378,184	$ 232,104	$ 34,525	$ 197,579	$ 1,575,763

Component Units

At December 31, 1997, the Colorado Travel and Tourism Authority reported office equipment, net of accumulated depreciation of $2,581.

The Colorado Water Resources and Power Development Authority reported furniture and fixtures, net of accumulated depreciation, of $141,423 and $58,780 at December 31, 1997 and 1996, respectively.

At December 31, 1997, the Denver Metropolitan Baseball Stadium District reported land and improvements, buildings, and other property and equipment, net of accumulated depreciation of $188.9 million and $193.2 million for 1997 and 1996 respectively.

At June 30, 1998, the University of Colorado Hospital Authority reported gross amounts for land, buildings and improvements of $145.4 million, equipment of $90.1 million, and construction in progress of $14.9 million. Accumulated depreciation related to these fixed assets was $89.0 million.

J. OTHER LONG-TERM ASSETS

In the governmental funds, the state has reserved the fund balance for long-term assets and long-term loans receivable. The loans in the Special Revenue Fund are made to local entities by the Water Conservation Board for the purpose of constructing water projects in the state. These loans are made for periods ranging from 10 to 40 years at interest rates of 2 to 4 percent. The loans require the entities to make a yearly payment of principal and interest.

K. FUND BALANCE DEFICITS

The fund deficit of $92.5 million in undesignated fund equity of the Special Revenue Funds is the result of the reserving of fund balance for purchase orders and long-term contracts made related to highway construction. This deficit will be funded from future proceeds of the Highway Fund.

The Administrative Hearings Fund, an internal service fund, had a retained earnings deficit of $106,822 at June 30, 1998 and a deficit of $92,369 at June 30, 1997 (see Note II-C).

L. FUND EQUITY

Fund equities reserved for other specific purposes at June 30, 1998 are

(Amounts in Thousands)

Reserved For	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Fiduciary Funds
CCIA Individual Investment Trust Fund					$ 789,971
Unemployment Benefits					672,136
Public School Permanent Moneys					299,833
Benefits for Injured Workers		$ 128,826			
Water Conservation Construction		102,635			
Wildlife, Parks and Outdoor Recreation	$ 1,073	76,677			907
Controlled Maintenance Trust Fund					77,487
Family Issues Cash Fund	64,782				
Severance Tax	26,630				35,640
Colorado Gaming Fund		32,669			
Public School Fund	30,639				
Hazardous Substances Response	28,699				
Energy Conservation	20,856				
Uninsurable Health Insurance Plan	16,895				
Mineral Leasing	15,228				
Victims of Crime	1,594				11,376
State Rail Bank Fund	11,400				
Petroleum Storage Tank Fund	10,883				
Economic Development Moneys	9,426				
Uranium Mill Tailing Removal	8,491				
Workers Compensation Regulation	8,348				
CERCLA Recovery Fund	8,147				
Mined Land Reclamation	526				7,235
Secretary of State's Fees	6,418				
Old Age Pension Stabilization	5,000				
Aviation Fund	4,580				
Debt Retirement			$ 4,475		
Limited Gaming Impact Fund	4,308				
Drug Offenders Surcharge Fund	4,106				
Distributed Data Processing		3,632			
Federal or Other Restrictions				$ 3,511	
Regulatory License and Fee Adjustment	3,394				
Disaster Emergency Fund	3,307				
General Liability Fund	3,266				
Real Estate Recoveries					2,758
Brand Inspection Fund	2,424				
Emission Control		2,401			
Patient Benefit Fund					2,341
Public Employees Social Security	2,288				
Central Indexing System	2,162				
Risk Management Property Fund	2,036				

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(Continued)

Reserved For	General Fund	Special Revenue Funds	Debt Service Fund	Capital Projects Funds	Fiduciary Funds
Unemployment Revenue Fund	2,025				
Treasurer's Escheats Fund					1,934
Emergency Response Cash Fund	1,848				
Disabled Telephone Users Fund	1,782				
Housing Rehabilitation Revolving Loans					1,742
Supreme Court Grievance Committee					1,691
Emergency Medical Services		1,621			
Uniform Commercial Credit Code	1,435				
Environmental Response Fund	1,406				
Infant Immunization	1,383				
Motor Carrier Fund	1,265				
Low Income Telephone Assistance	1,167				
Art in Public Places	1,112				
LEAF		1,103			
Comprehensive Health Education	1,016				
Other Special Purpose Programs	30,899	4,236			11,681
Totals	$ 352,244	$ 353,800	$ 4,475	$ 3,511	$ 1,916,732

M. PRIOR PERIOD ADJUSTMENTS

Primary Government

On the *Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, All Governmental Fund Types, Expendable Trust Funds, and Discretely Presented Component Units*, the fund balance of the General Fund decreased by $1,204,054. This included a $2,385,541 increase for the cumulative effect of an accounting change to book unrealized investment gains and losses of prior years, and a decrease of $3,589,595 for revenue improperly accrued in prior years for tax liens under the elderly property tax credit program.

The fund balance of the Special Revenue Fund decreased by $670,117. This included a $1,546,859 increase for the cumulative effect of an accounting change to book unrealized investment gains and losses of prior years, and a decrease of $2,216,976 for revenue recorded twice by the Division of Wildlife in Fiscal Year 1996-97.

The fund balance of the Capital Construction Fund increased by $1,565,840, and the fund balance of the Expendable Trust Fund increased by $191,070 for the cumulative effects of an accounting change to book unrealized investment gains and losses of prior years.

On the *Combined Statement of Revenues, Expenses, and Changes in Fund Equity, All Proprietary Fund Types, Similar Trust Funds, and Discretely Presented Component Units* the beginning fund balance of the Enterprise Fund was increased by $224,083 and the beginning fund balance of the Nonexpendable Trust Fund was increased by $6,482,230 for the cumulative effects of an accounting change to book unrealized investment gains and losses of prior years.

The beginning fund balance of the Internal Service Fund was decreased by $470,830. This included a $84,517 increase for the cumulative effect of an accounting change to book unrealized investment gains and losses of prior years, and a decrease of $555,347 for the failure of the Department of Transportation to record depreciation in prior years.

On the *Statement of Changes in Net Assets, Investment Trust Funds*, the beginning fund balance was increased by $17,542,636 for the cumulative effect of an accounting change to book unrealized investment gains and losses of prior years, and increased by $772,110,663 for an accounting change that requires individual investment trust accounts to be reclassified as investment trust funds rather than agency funds.

On the *Combined Statement of Changes in Fund Balance, All College and University Funds* the beginning fund balance of the Current Unrestricted Fund was increased by $5,772,194, the Loan Fund by $116,670, the Unexpended Plant Fund by $4,909,640, and the Retirement of Indebtedness Plant Fund by $396,282, for the cumulative effects of an accounting change to book unrealized investment gains and losses of prior years.

The beginning fund balance of the Current Restricted Fund was increased by $972,954 for the cumulative effect of an accounting change to book unrealized investment gains and losses of prior years, and increased by $2,804,231 for adding the employees' benefit program of the community college system.

Also, the beginning fund balance of the Endowment Fund was increased by $1,349,425 for the cumulative effect of an accounting change to book unrealized investment gains and losses of prior years, and further increased by $3,982,521 for the failure of the University of Colorado to recognize realized investment gains in Fiscal Year 1996-97.

N. TRANSFERS BETWEEN FUNDS

Major operating transfers between funds for the fiscal year ended June 30, 1998, were as follows:

(Amounts in Thousands)

Transfer	Amount
General Fund to Higher Education	$ 628,011
General Fund to Capital Construction	198,387
Capital Construction to Higher Education	107,451
Capital Construction to Highway Fund	87,885
Lottery Fund to Conservation Trust Fund	35,545
Capital Construction to Debt Service Fund	32,294
School Income Expendable Trust to General Fund	29,870
Gaming Fund to General Fund	25,912
Highway Fund to General Fund	19,010
Controlled Maintenance Trust to Capital Construction	10,600
Capital Construction to General Fund	10,400
Lottery Fund to Wildlife Fund	8,886
Wildlife Fund to Capital Construction Fund	8,839
Treasurer's Expendable Trust to General Fund	8,167
General Fund to Water Projects Construction Fund	4,238
Gaming Fund to Highway Fund	3,951
Wildlife Fund to General Fund	2,879
Higher Education to General Fund	2,877
Severance Tax Trust to General Fund	1,995
Water Projects Construction Fund to General Fund	1,966
Victims Compensation Trust Fund to General Fund	1,211
Lottery Fund to Capital Construction	643
Lottery Fund to General Fund	313
Other	26,915
Total	$1,258,245

In addition to the above transfers, residual equity transfers were made to the proprietary funds from the governmental funds and the General Fixed Assets Account Group. The account groups do not have a statement of operations, and thus, matching transfers are not shown in the statements. In the proprietary funds, these are shown as "Additions To Contributed Capital" in the fund equity section of the *Combined Statement of Revenues, Expenses, and Changes in Fund Equity, All Proprietary Fund Types, Similar Trust Funds, and Discretely Presented Component Units* in the amount of $323,428. This amount comprises the following transactions:

- During Fiscal Year 1997-98, $113,813 was transferred from the Highway Fund, a special revenue fund, to the Highways Internal Service Fund.
- Upon completion of a capital construction project, the Telecommunications Internal Service Fund received $114,074 in assets from the General Fixed Assets Account Group, which were funded by the Capital Construction Fund and shown as additions to contributed capital. The account group does not have an operating statement, thus there is not a corresponding transfer-out.
- The State Nursing Homes, an enterprise fund, received $95,541 of fixed assets from the General Fixed Assets Account Group, which were funded by the Capital Construction Fund and shown as additions to contributed capital. The account group does not have an operating statement, thus there is not a corresponding transfer-out.

On the *Combined Statement of Revenues, Expenditures, and Changes in Fund Balances, All Governmental Fund Types and Expendable Trust Funds* the residual equity transfer for $181,213 was from the Food Stamp Insurance Expendable Trust Fund to the General Fund.

O. SEGMENT INFORMATION

Primary Government

The principal activities of the state's enterprise funds are the guaranteed student loan program, the lottery, the state's nursing homes, the business enterprise program, enterprises at the state's prisons, and the state fair.

The guaranteed student loan program guarantees loans made by private lending institutions, in compliance with operating agreements with the U.S. Department of Education, to students attending postsecondary schools.

The State Lottery encompasses the various lottery and lotto games run under state statute. In the past, net proceeds were used to support various state construction projects. In Fiscal Year 1993-94, the Great Outdoors Colorado Program began the phased reduction of the amount of net lottery proceeds available for state construction projects.

The state nursing homes provide nursing home and retirement care to the elderly. The state's nursing homes are located at Homelake, Walsenburg, Florence, Rifle, and Trinidad.

The business enterprise program assists the visually impaired in conducting business such as cafeterias in the state office buildings.

Enterprise activities at the state's prisons include the sale of manufactured goods and farm products produced by convicted criminals who are incarcerated in the state's prison system.

Segment information for the enterprise funds of the state for the year ended June 30, 1998, is:

(Amounts in Thousands)

	GUARANTEED STUDENT LOAN	STATE LOTTERY	BUSINESS ENTERPRISE PROGRAM	STATE NURSING HOMES	PRISON CANTEENS	CORREC-TIONAL INDUSTRIES	STATE FAIR AUTHORITY	OTHER ENTERPRISE ACTIVITIES	TOTALS
Operating Revenue	$ 74,692	$374,543	$ 661	$ 16,817	$ 7,490	$ 26,510	$ 5,158	$ 3,386	$ 509,257
Federal Grants and Contracts	62,526	-	-	4,495	-	-	-	962	67,983
Depreciation	506	460	215	499	26	887	675	45	3,313
Operating Income	4,320	44,046	(594)	(4)	1,036	1,128	(1,852)	135	48,215
Operating									
Transfers-In	-	-	-	239	-	-	-	18	257
Transfers-(Out)	(168)	(45,387)	-	(96)	(52)	(385)	-	(194)	(46,282)
Net Income (Loss)	4,152	200	(115)	268	1,014	869	(788)	207	5,807
Additions to Contributed Capital	-	-	-	96	-	-	-	-	96
Working Capital	37,748	146	475	3,249	4,786	12,304	193	1,631	60,532
Increase in Net Property, Plant, and Equipment	386	254	(165)	(35)	219	(367)	(437)	(18)	(163)
Total Assets	55,383	45,805	1,155	10,830	5,883	22,845	9,926	10,841	162,668
Bonds and Other Long-Term Liabilities	778	794	37	995	51	1,317	2,511	68	6,551
Fund Equity	38,780	1,537	952	9,343	5,305	19,202	5,352	5,572	86,043

Component Units

The Colorado Water Resources and Power Development Authority's purpose is to initiate, acquire, construct, maintain, repair and operate, or cause to be operated, projects for the protection, preservation, conservation, upgrading, development and utilization of the water resources of the state.

The Denver Metropolitan Major League Baseball Stadium District includes all or part of the six counties in the Denver metro area. The District was created for the purpose of acquiring, constructing and operating a major league baseball stadium. The District levies a sales tax of one-tenth of one percent throughout this District for a period not to exceed 20 years for this purpose.

University Hospital is a nonsectarian, general acute care regional hospital operated by the University of Colorado Hospital Authority. It is the teaching hospital of the University of Colorado Health Sciences Center. The hospital's mission is to provide education, research and a full spectrum of primary, secondary and tertiary health care services to the Denver metropolitan area and the Rocky Mountain Region.

The Colorado Uninsurable Health Insurance Plan is a nonprofit public entity created to provide access to health insurance for those Colorado residents that are unable to obtain health insurance, or unable to obtain health insurance except at prohibitive rates or with restrictive exclusions.

The Colorado Travel and Tourism Authority was created in 1994 for the purpose of planning and promoting the State of Colorado as a quality travel and tourist destination through advertising, publications and public relations activities.

DOLLARS IN THOUSANDS	FIDUCIARY FUND TYPE	PENSION TRUST FUND	PROPRIETARY FUND TYPES					
	COLORADO WATER RESOURCES AND POWER DEVELOPMENT AUTHORITY	UNIVERSITY OF COLORADO HOSPITAL AUTHORITY	DENVER METROPOLITAN MAJOR LEAGUE BASEBALL STADIUM DISTRICT	UNIVERSITY OF COLORADO HOSPITAL AUTHORITY	COLORADO WATER RESOURCES AND POWER DEVELOPMENT AUTHORITY	COLORADO TRAVEL AND TOURISM AUTHORITY	COLORADO UNINSURABLE HEALTH INSURANCE PLAN	TOTALS
ASSETS:								
Current Assets	$ 43,710	$ -	$ 16,995	$ 50,273	$ 76,694	$ 533	$ 3,743	$ 191,948
Investments	72,247	59,691	2,394	154,211	58,943	-	-	347,486
Property, Plant and Equip., net	-	-	188,881	161,419	141	3	4	350,448
Other Long-Term Assets	-	-	1,654	14,544	268,490	-	-	284,688
Total Assets	$ 115,957	$ 59,691	$ 209,924	$ 380,447	$ 404,268	$ 536	$ 3,747	$ 1,174,570
LIABILITIES:								
Current Liabilities	$ 73,322	$ -	$ 1,503	$ 51,924	$ 30,062	$ 578	$ 1,650	$ 159,039
Notes and Bonds Payable	-	-	94,566	132,333	243,629	-	-	470,528
Other Long-Term Liabilities	-	-	-	7,290	-	-	-	7,290
Total Liabilities	73,322	-	96,069	191,547	273,691	578	1,650	636,857
FUND EQUITY:								
Contributed Capital	-	-	386	-	73,981	-	-	74,367
Retained Earnings	-	-	113,469	-	56,596	-	2,097	172,162
Fund Balances:								
Reserved	42,635	59,691	-	-	-	-	-	102,326
Undesignated	-	-	-	188,900	-	(42)	-	188,858
Total Fund Equity	42,635	59,691	113,855	188,900	130,577	(42)	2,097	537,713
Total Liabilities and Fund Equity	$ 115,957	$ 59,691	$ 209,924	$ 380,447	$ 404,268	$ 536	$ 3,747	$ 1,174,570

DOLLARS IN THOUSANDS	FIDUCIARY FUND TYPE	PROPRIETARY FUND TYPES				
	COLORADO WATER RESOURCES AND POWER DEVELOPMENT AUTHORITY	DENVER METROPOLITAN MAJOR LEAGUE BASEBALL STADIUM DISTRICT	UNIVERSITY OF COLORADO HOSPITAL AUTHORITY	COLORADO WATER RESOURCES AND POWER DEVELOPMENT AUTHORITY	COLORADO TRAVEL AND TOURISM AUTHORITY	COLORADO UNINSURABLE HEALTH INSURANCE PLAN
OPERATING REVENUES	$ 2,746	$ 884	$ 246,865	$ 15,951	$ 1,513	$ 3,531
OPERATING EXPENSES:						
Depreciation	-	5,015	15,747	30	1	-
Other Operating Expenses	-	146	215,338	14,930	1,268	5,904
Total Operating Expenses	-	5,161	231,085	14,960	1,269	5,904
Operating Income/Excess (Loss)	2,746	(4,277)	15,780	991	244	(2,373)
Non-Operating Revenues and (Expenses)/Transfers:						
Taxes	-	27,427	-	-	-	-
Other	-	(6,421)	13,623	4,986	-	2,139
Transfers, net	(2,750)	-	-	2,750	-	-
Total Non-Operating Revenues and (Expenses)/Transfers	(2,750)	21,006	13,623	7,736	-	2,139
Net Income/Change in Retained Earnings	(4)	16,729	29,403	8,727	244	(234)
Fund Equity/Balance, Beg. of Year	42,639	97,126	160,728	115,882	(286)	2,331
Additions (Deductions) to Contributed Capital	-	-	-	5,968	-	-
Change in Unrealized Gains/Losses on Available-for-Sale Securities	-	-	(1,231)	-	-	-
Fund Equity/Balance, End of Year	$ 42,635	$ 113,855	$ 188,900	$ 130,577	$ (42)	$ 2,097

P. OTHER DISCLOSURES

Primary Government

The Colorado Medical Services Foundation, a related organization, was established to support patient billing and collections for physician fees for the University of Colorado Health Sciences Center. During Fiscal Years 1997-98 and 1996-97 the university was reimbursed $65.3 million and $65.1 million, respectively, from the foundation for salaries, fringe benefits, and related costs. In addition, the foundation reimbursed the university $637,482 for professional liability insurance and administrative costs in Fiscal Year 1997-98. At June 30, 1998, $230,114 was owed by the foundation to the university.

The University of Colorado Foundation, Inc., an unconsolidated affiliated corporation, was established in 1967 as a separate corporation to solicit, collect, and invest donations for the university. The foundation distributed $32.9 million and $34.9 million to the university in Fiscal Year's 1997-98 and 1996-97, respectively.

The Colorado State University Foundation was established to receive, manage, and invest philanthropic gifts to Colorado State University. During Fiscal Years 1997-98 and 1996-97, the foundation transferred $12.0 million and $13.0, respectively, to the university.

The Fort Lewis College Foundation was established to assist in promoting, developing, and enhancing the facilities and programs of the college. During Fiscal Years 1997-98 and 1996-97 the foundation transferred $479,527 and $2,688,638, respectively, to the college.

The Colorado School of Mines Foundation, Inc. was established in 1928 as a separate corporation for the purpose of benefiting the School of Mines by soliciting, collecting, and investing donations. During Fiscal Years 1997-98 and 1996-97 the school received $5,819,892 and $5,082,975 respectively from the foundation. The foundation owed the school $24,032 at June 30, 1998.

The Colorado School of Mines Building Corporation was established in 1976 for the purpose of building a facility to house the United States Geological Survey. The Geological Survey leases the facility from the corporation. The net assets of the corporation at June 30, 1998 and June 30, 1997 were $4,007,672 and $3,573,226 respectively.

The RRCC Foundation was established to support Red Rocks Community College. During Fiscal Year 1997-98, the college provided $119,000 to the foundation in the form of space and an operating budget. The college received $40,000 in scholarship funds from the foundation.

During Fiscal Years 1997-98 and 1996-97 the Department of Local Affairs distributed $1,416,184 and $1,361,846 respectively, to the Colorado Housing and Finance Authority (CHAFA), a related party, 100 percent of the revenues of the waste tire recycling program. At June 30, 1998 the state still owed CHAFA $121,100.

The Great Outdoors Colorado Board (GOCO) is a constitutionally created entity whose purpose is to administer the Great Outdoors Colorado Program and Trust Fund. The program's purpose is to invest money it receives from the Colorado Lottery in the wildlife and outdoor recreation resources of the state. During Fiscal Years 1997-98 and 1996-97 the board transferred 7,650,967 and $7,495,107 respectively to the Department of Natural Resources. At June 30, 1998, $1,575,745 was due the department from the board.

Component Units

The University of Colorado Hospital Authority received a net state appropriation of $7.7 million in both Fiscal Year 1997-98 and 1996-97 for indigent care. In addition, the hospital participates in the Colorado Disproportionate Share Hospital Program. The hospital received net reimbursements for this program from the state of $16.2 million and $14.7 million for the years ended June 30, 1998 and 1997, respectively.

The hospital has contracted with University Physicians, Inc. (UPI), a related party, for the administration of various hospital programs and for various professional laboratory services. The hospital and UPI have also entered into other joint arrangements in furthering the missions of both organizations. Amounts of approximately $18.2 million and $18.8 million were paid for these programs during Fiscal Years 1997-98 and 1996-97, respectively.

The hospital leases certain employees to the Adult Clinical Research Center (CRC), a related party, at full cost and also provides overhead and ancillary services for CRC patients. Charges of approximately $1.4 million were billed to CRC for the cost of these services during both Fiscal Years 1997-98 and 1996-97.

The hospital also leases certain employees to the Colorado Psychiatric Hospital, a related party, and provides various clinical and administrative services. Amounts for these services charged by the hospital were approximately $6.8 million and $5.8 million during Fiscal Years 1997-98 and 1996-97, respectively.

The hospital entered into certain provider and network management agreements with the TriWest Healthcare Alliance Corporation. TriWest was formed to deliver health care services to eligible beneficiaries of the Civilian Health and Medical Program of the Uniform Services. On June 27, 1996, TriWest was awarded a contract by the U.S. Department of Defense for a five year period.

As part of the agreements the hospital purchased a minority interest in TriWest for approximately $3.3 million. This was recorded as "Other Assets" and is accounted for under the cost method. The hospital agreed to secure a letter of credit for $4.6 million to cover the hospital's share of any potential losses of TriWest. At June 30, 1998, no amounts had been drawn on the letter of credit.

UPI has also signed an agreement with the hospital to assume its network management obligations related to TriWest. As part of its negotiations, the hospital received a capital contribution of $993,750 from UPI. Under the current terms of the draft contract between the hospital and UPI, UPI will sign a $1,380,000 letter of credit, equal to 30 percent of the hospital's letter of credit commitment to TriWest.

Chartwell Rocky Mountain Region is a Colorado general partnership between the hospital and Chartwell Home Therapies Limited Partnership, a Massachusetts limited partnership. Chartwell Rocky Mountain Region was formed to provide home infusion and respiratory services to alternate site patients. The partnership began in April 1996. Both the hospital and Chartwell Home Therapies Limited Partnership each have a 50 percent ownership in Chartwell Rocky Mountain Region. Separate financial statements of Chartwell Rocky Mountain Region are available from Chartwell Home Therapies Limited Partnership.

NOTE IV. COMMITMENTS AND CONTINGENCIES

A. CHANGES IN LONG-TERM LIABILITIES

Changes in long-term liabilities are summarized as follows:

Primary Government

(Amounts in Thousands)

	Governmental Fund Types	Proprietary Fund Types	Trust & Agency Funds	Long-Term Debt Accounts	College & University Funds	Totals
Beginning Balance, July 1, 1997	$ 4,243	$ 27,859	$1,213,880	$495,277	$552,640	$2,293,899
Obligations Issued or Assumed	-	-	-	-	62,580	62,580
Obligations Retired or Reclassified	-	(90)	-	-	(52,120)	(52,210)
Increase (Decrease) in Deposits Held	115	4	(749,373)	-	(11,304)	(760,558)
Increase (Decrease) in Capital Leases	-	3,638	(14)	(24,707)	27,699	6,616
Increase (Decrease) in Comp. Absences	-	64	10	1,848	6,740	8,662
Increase (Decrease) in Deferred Comp.	-	-	42,451	-	-	42,451
Increase (Decrease) in Other Liabilities						
Claimant Benefits	-	-	(29)	-	-	(29)
Tax Refunds Payable	-	-	465	-	-	465
Treasury Escheats	-	-	(145)	-	-	(145)
Risk Management Claims	-	-	-	(192)	874	682
State Fair Authority	-	(169)	-	-	-	(169)
Unpaid Insurance Claims	-	76	-	(382)	-	(306)
Expired Warrants Liability	-	5	-	-	-	5
Labor Fund Claims	-	-	-	(3,350)	-	(3,350)
Highway Construction Advances	-	-	-	(13,711)	-	(13,711)
Other	10	-	-	-	3,294	3,304
Ending Balance June 30, 1998	$ 4,368	$ 31,387	$ 507,245	$454,783	$590,403	$1,588,186

Component Units

(Amounts in Thousands)

	Denver Metropolitan Major League Baseball Stadium District	University Of Colorado Hospital Authority	Colorado Water Resources and Power Development Authority	Colorado Travel and Tourism Authority	Colorado Uninsurable Health Insurance Plan	Totals
Beginning Balance	$103,186	$ 143,247	$188,105	$ -	$ -	$ 434,538
Obligations Issued	-	-	65,425	-	-	65,425
Obligations Retired or Reclassified	(8,620)	(3,591)	(9,901)	-	-	(22,112)
Increase (Decrease) in Comp. Absences	-	248	-	-	-	248
Increase (Decrease) in Other Liabilities	-	(281)	-	-	-	(281)
Ending Balance	$ 94,566	$ 139,623	$243,629	$ -	$ -	$ 477,818

B. LEASE COMMITMENTS

Primary Government

The state may enter into lease or rental agreements for buildings or equipment. All leases contain clauses indicating that continuation of the lease is subject to funding by the legislature. It is reasonably assured that most of these leases will be renewed in the normal course of business. They are therefore treated as noncancelable for financial reporting purposes.

At June 30, 1998, the state had $2.8 million of land, $253.7 million of buildings, and $130.5 million of equipment under capital leases. The state also had $766,617 in minimum sublease rentals and $3.3 million contingent rentals outstanding.

Colorado State University Research Foundation, a related party, is a not-for-profit Colorado corporation, established to aid and assist the three universities governed by the State Board of Agriculture in their research and educational efforts. The support provided by the foundation to the universities includes patent and licensing management, equipment leasing, municipal lease administration, debt financing, and land acquisition, development and management. Colorado State University System is sub-leasing space from the foundation. The total obligation is $1,906,000 with average annual lease payments of $376,000. Colorado State University is also sub-leasing space from the foundation. The total obligation is $3,075,000, with average annual lease payments of $615,000.

The university is also leasing equipment from the foundation and has a total lease obligation of $375,000 with terms ranging from one to six years.

The state is obligated under certain leases which are accounted for as operating leases. Operating leases do not give rise to property rights or lease obligations. Therefore, the results of the lease agreements are not reflected in the balance sheets of the funds or account groups.

For the Fiscal Year 1997-98 the state had building and land rental expenditures of $26.4 million and equipment and vehicle rental expenditures of $36.2 million paid to non-state agencies.

Future minimum payments at June 30, 1998, for existing leases were as follows:

(Amounts in Thousands)

			Capital Leases				
	Fiscal Year	Operating Leases	Enterprise Funds	Internal Service Funds	Trust & Agency Funds	General Long-Term Debt	College & University Funds
	1999	$ 32,778	$ 503	$ 9,430	$ 37	$ 16,944	$ 17,950
	2000	26,175	518	9,132	36	5,857	17,399
	2001	21,849	381	7,203	18	5,617	18,112
	2002	18,890	-	4,838	5	5,463	12,224
	2003	15,910	-	3,018	-	5,477	10,745
	Thereafter	63,544	-	1,490	-	13,621	85,455
Total Minimum Lease Payments		$ 179,146	1,402	35,111	96	52,979	161,885
Less: Imputed Interest			(230)	(3,574)	(12)	(8,666)	(49,051)
Present Value of Minimum Lease Payments			1,172	31,537	84	44,313	112,834
Less: Current Portion			(374)	(8,082)	-	-	(1,620)
Total Capital Lease Obligations			$ 798	$ 23,455	$ 84	$ 44,313	$ 111,214

Component Units

The University of Colorado Hospital Authority leases certain equipment under non-cancelable operating leases. Rental expense for operating leases approximated $5.6 million and $6.5 million for Fiscal Years 1997-98 and 1996-97, respectively, for the hospital. Future minimum lease payments for these leases at June 30, 1998 are:

Fiscal Year	Amounts in Thousands
1999	$ 1,940
2000	1,667
2001	966
2002	624
2003	624
Thereafter	18,999
Total Minimum Obligations	$24,820

The Colorado Water Resources and Power Development Authority leases office facilities under an operating lease which expires December 31, 2000. Total rental expense for the year ended December 31, was $73,312 in 1997 and $56,882 in 1996. The future minimum annual rental commitments under this lease are $$82,380 for 1998 and $85,729 annually for 1999 and 2000.

C. NOTES AND BONDS PAYABLE

Primary Government

Many institutions of higher education and the state nursing homes have issued bonds and notes for the purchase of equipment and construction of facilities. Specific user revenues are pledged for the payments of interest and future retirement of the obligations. During Fiscal Year 1997-98, the state had $114.3 million of available net revenue after operating expenses to meet the $35.0 million of debt service requirement related to these bonds. The state is not aware of any violations of any note or bond covenants by itself or any of its institutions at June 30, 1998, or subsequent to that date.

The state recorded $44.1 million of interest costs of which approximately $7.9 million was for certificates of participation for capital financing, $8.0 million was for short-term borrowings by the treasurer, $9.1 million was for the Guaranteed Student Loan Program, $13.0 million was for debt issued by various institutions of higher education, and $6.1 million of operating interest.

Annual maturities of notes and bonds payable, including $2.8 million classified as other current liabilities and including $2.7 million of unamortized bond discounts and premiums, are as follows:

(Amounts in Thousands)

Fiscal Year	Revenue Bonds	Anticipation Warrants	Mortgages Payable	Installment Notes	Total
1999	$ 34,912	$ 123	$ 50	$ 25	$ 35,110
2000	35,041	126	50	160	35,377
2001	33,187	128	50	18	33,383
2002	32,257	130	50	16	32,453
2003	32,259	-	50	8	32,317
2004-2008	151,758	-	250	16	152,024
2009-2013	124,022	-	50	-	124,072
2014-2018	65,104	-	-	-	65,104
2019-2023	25,542	-	-	-	25,542
2024-2028	2,832	-	-	-	2,832
Total Future Payments	536,914	507	550	243	538,214
Less: Imputed Interest	(191,368)	(87)	(135)	(12)	(191,602)
Total Principal Payments	$ 345,546	$ 420	$ 415	$ 231	$ 346,612

Component Units

The debt service requirements to maturity for the Denver Metropolitan Major League Baseball Stadium District and the Water Resources and Power Development Authority December 31, 1997 are:

(Amounts in Thousands)

Year	Denver Metropolitan Major League Baseball Stadium District	Colorado Water Resources and Power Development Authority
1998	$ 15,397	$ 24,488
1999	15,400	27,082
2000	15,398	26,873
2001	15,400	26,658
2002	17,864	26,738
Thereafter	45,843	292,144
Total Future Payments	125,302	423,983
Less: Imputed Interest	(22,592)	(170,453)
Unamortized Discount and Losses	(8,144)	
Total Principal Payments	$ 94,566	$ 253,530

The Denver Metropolitan Major League Baseball Stadium District's bonds are secured by pledged revenues consisting principally of the net proceeds derived by the district from the levy of a one-tenth of one percent sales tax upon all taxable retail sales within the six county area comprising the jurisdiction of the district.

The outstanding bond principal and interest payments are also unconditionally and irrevocably guaranteed under a noncancelable insurance policy issued by Financial Guaranty Insurance Company. The company has a lien on the district's assets, subordinate to that granted to the bondholders, to secure repayment of amounts paid and expenses incurred by it, if any, under the policy.

All of the Water Resources and Power Development Authority's Small Water Resources Program bonds and the Series 1989A and Series 1990A Clean Water Revenue Bonds and Series 1989A and Series 1990A State Match Revenue Bonds are insured as to payment of principal and interest by Financial Guaranty Insurance Company. The Clean Water Revenue Bonds, Series 1992A are insured as to payment of principal and interest by Financial Security Assurance, Inc. The Wastewater Revolving Fund Refunding Revenue Bonds, Series 1996A are insured as to payment of principal and interest by AMBAC Indemnity Corporation.

During Fiscal Years 1997-98 and 1997-98 the University of Colorado Hospital Authority met all the financial ratio requirements of its bond indenture.

Cash paid for interest by the hospital in Fiscal Years 1997-98 and 1996-97 approximated $7.8 million and $8.2 million, respectively. Total interest cost incurred in Fiscal Year 1997-98 amounted to $8.0 million, of which $899,000 was offset by investment income from the unexpended bond funds.

The aggregate maturities of long-term debt for University Hospital at June 30, 1998 are:

(Amounts in Thousands)

Year	
1999	$ 3,270
2000	3,190
2001	3,310
2002	3,430
2003	3,660
Thereafter	130,530
Total Long-Term Debt Payments	147,390
Unamortized Discount	(2,251)
Deferred Amount on Refunding from Series 1997A Bonds	(9,536)
Total Carrying Amount of Long-Term Debt	$ 135,603

D. OTHER LONG-TERM LIABILITIES

The following obligations, listed by fund type, represent amounts owed by the state at June 30, 1998, which are classified as other long-term liabilities on the balance sheet:

(Amounts in Thousands)

	General Fund	Proprietary Funds	Trust & Agency Funds	Long-Term Debt Accounts	College & University Funds	Totals
Tax Refunds Payable	$ -	$ -	$ 8,890	$ -	$ -	$ 8,890
Treasury Escheats	-	-	1,107	-	-	1,107
Risk Management Claims	-	-	-	98,071	33,579	131,650
State Fair Authority	-	2,475	-	-	-	2,475
Unpaid Insurance Claims	-	244	-	1,569	-	1,813
Expired Warrant Liability	-	107	-	-	-	107
Labor Fund Claims	-	-	-	204,110	-	204,110
Highway Construction Advances	-	-	-	3,000	-	3,000
Other	296	-	-	-	4,869	5,165
TOTAL	$ 296	$ 2,826	$ 9,997	$ 306,750	$ 38,448	$358,317

Tax Refunds Payable in the fiduciary funds are bonds posted by taxpayers concerning the collections of gross-ton-mile and fuel tax, and the deferment of delinquent severance taxes estimated to be collected after more than one year.

The Risk Management Claims in the Long-Term Debt Account Group are the actuarially determined amounts in excess of the current liability in the General Fund related to self-insurance of general liability. It also represents expected claims under the prior Paid Loss/Retro Plan and the state’s current self-insurance plan for workers’ compensation. The Risk Management Claims in the College and University Funds are for the University of Colorado’s self-insurance program for general liability, property, workers’ compensation, medical benefits, and medical malpractice.

The Unpaid Insurance Claims in the Long-Term Debt Account Group are for the Department of Human Services workers’ compensation self-insurance. This plan is currently managed by a third party claims administrator.

Expired Warrants Liability is for warrants issued by the Lottery Fund that have expired but for which the Lottery would be liable if the payee submitted a claim for reissue.

Long-term liabilities against the Labor Fund are recorded in the General Long-Term Debt Account Group. Estimated future payments are actuarially determined. Benefits are expected to be funded through future revenues from a special tax on workers' compensation premiums, court awards and interest income.

E. DEFEASED DEBT

Primary Government

Debt is defeased by depositing in escrow accounts an amount sufficient, together with known minimum investment yields, to pay principal, interest, and any redemption premium on the debt to be defeased. During Fiscal Year 1997-98, debt was defeased in the College and University Plant Funds.

During Fiscal Year 1997-98 the University of Colorado advanced refunded $10,105,000 of debt by depositing with an escrow agent $10,395,000 of proceeds from new debt. The retired debt consisted of Student Facilities Bonds, Series 1986, having interest rates from 7.0 to 7.6 percent and a maturity up to 8.5 years. The new debt of Enterprise System Refunding and Improvement Bonds, Series 1997, had interest rates ranging from 4.2 percent to 5.1 percent, and a maximum term of 8 years. The university recorded an accounting loss of $290,000, an economic gain of $459,458, and a decrease of $582,216 in the present value of cash flows necessary to service the debt to maturity.

During Fiscal Year 1997-98 Colorado State University advanced refunded $10,460,000 of debt by depositing with an escrow agent $11,600,000 of proceeds from a portion of their Auxiliary Facilities Refunding and Improvement Revenue Bonds, Series 1997. The retired debt consisted of Auxiliary Facilities Refunding and Improvement Revenue Bonds, Series 1992. The new debt had interest rates ranging from 3.85 percent to 5.125 percent, and a term of 19.3 years. The old debt had interest rates from 5.9 percent to 6.4 percent, and a term of 19.3 years. The university recorded an accounting loss of $514,642, an economic gain of $401,592, and a decrease of $610,592 in the present value of cash flows necessary to service the debt to maturity.

During Fiscal Year 1997-98 the University of Northern Colorado advanced refunded $9,300,000 of debt by depositing with an escrow agent $10,630,000 of proceeds from their Auxiliary Facilities System Revenue Bonds. The new debt had interest rates ranging from 3.5 to 5.0 percent, and terms up to 26 years. The old debt had interest rates from 5.4 percent to 6.0 percent, and terms up to 30 years. The university recorded an accounting loss of $1,039,405, an economic loss of $3,146,135, and a increase of $200,231 in the present value of cash flows necessary to service the debt to maturity.

During Fiscal Year 1997-98, Northeastern Junior College advanced refunded $495,000 of old debt by placing $540,000 of new debt with an escrow agent to reduce the total debt service period by three years on its dormitory project. This will ensure that the college's bonds do not exceed the debt service period of the other bonds of the Community College System as required by statute. The old debt had a term of 25 years with a 5.5 percent interest rate. The new debt has terms up to 22 years with interest rates ranging from 3.85 to 5.125 percent. The college recorded an accounting loss of $18,014, an economic loss of $20,757, and an increase in the present value of cash flows necessary to service the debt of $145,111.

The balances of outstanding debt at June 30, 1998, which have been placed in escrow type accounts with paying agents for the General Long-Term Account Group are $15,270,000 for the Department of Personnel.

The balances which have been placed in escrow type accounts with paying agents for the college and university funds are as follows:

(Amounts in Thousands)

University of Colorado	$84,610
Auraria Higher Education Center	35,550
University of Northern Colorado	19,200
Colorado State University	17,086
Western State College	12,255
Fort Lewis College	4,649
School of Mines	4,480
Mesa State College	2,265
Adams State College	1,220
Northeastern Junior College	495
Arapahoe Community College	340
University of Southern Colorado	110
TOTAL	$182,260

Component Units

The Denver Metropolitan Major League Baseball Stadium District had total debt service, including principal and interest, remaining for its defeased debt of $97,075,500 at December 31, 1997, assuming no early redemption.

The Colorado Water Resources and Power Development Authority had $43,030,000 of bonds previously issued but defeased at December 31, 1997.

On November 1, 1997, the University of Colorado Hospital Authority issued $123,900,000 in Hospital Refunding Revenue Bonds with an average interest rate of 5.4 percent to advance refund $109,200,000 of outstanding Series 1992A bonds with an average interest rate of 6.6 percent. At June 30, 1998, the unamortized deferred gain on the refunding is $9.5 million. Total debt service payments will be reduced by $6.5 million and the economic gain on the transaction was $3.7 million.

F. RISK MANAGEMENT

Primary Government

The state currently self-insures its agencies, officials, and employees for the risks of losses to which they are exposed. That includes general liability, motor vehicle liability, worker's compensation, and medical claims. The Risk Management Fund is a restricted General Fund used for claims adjustment, investigation, defense, and authorization for the settlement and payment of claims or judgments against the state except for employee medical claims. The State Employees and Officials Insurance Fund is an Internal Service Fund established for the purpose of risk financing employee's and official's medical claims. Property claims are not self-insured, rather the state has purchased insurance.

Colorado employers are liable for occupational injuries and diseases of their employees. Benefits are prescribed by the Worker's Compensation Act of Colorado for medical expenses and loss of wages resulting from job-related disabilities. The state utilizes the services of the Colorado Compensation Insurance Authority, a related party, to administer its plan. The state reimburses the Authority for the current cost of claims paid and related administrative expenses.

Prior to October 1, 1996, the Regents of the University of Colorado participated in the University of Colorado Insurance Pool, a public entity self-insurance pool. After that date the university became self-insured for worker's compensation, auto, general and property liability, and official's and employee's medical claims. The university's medical claims are handled by a third party through a contractual agreement. The university has also purchased stop-loss insurance for individual medical claims in excess of $500,000.

The University of Colorado Health Sciences Center's Housestaff Health Benefits Plan is a comprehensive self-insurance health benefits program for physicians in training at the Health Sciences Center. The Center also self-insures its faculty, staff and students for medical malpractice through the University of Colorado Self Insurance Risk Management Trust. Excess risk exposure is handled through the purchase of stop-loss insurance for individual medical claims in excess of $100,000 per year and an aggregate of $2,993,284 for the entire plan. The discounted liability for malpractice is determined annually by an actuarial study.

All funds and agencies of the state, with the exception of the public authorities and the University of Colorado, participate in the Risk Management Fund. Agency premiums are based on an assessment of risk exposure and historical experience. Liabilities are reported when it is probable that a loss has occurred and the amount of that loss can be reasonably estimated. Liabilities include an amount for claims that have been incurred but not reported. Because actual claims liabilities depend on such complex factors as inflation, changes in legal doctrines, and damage awards, the process used in computing claims liability does not necessarily result in an exact amount. Claims liabilities are reevaluated periodically to take into consideration recently settled claims, the frequency of claims, and other economic and social factors.

The Department of Human Services uses a third party administrator to manage those claims related to the Human Services Workers' Compensation Plan. However, new claims are administered by Risk Management and paid from the Risk Management Workers' Compensation Plan.

During Fiscal Years 1997-98, 1996-97, and 1995-96 medical claims against the State Employees and Officials Insurance Fund exceeded the premiums collected. This resulted in decreases in the medical reserve fund equity of approximately $3.8 million, $6.5 million, and $2.1 million, respectively. The fund includes several medical plan options ranging from provider of choice to managed care.

The fund also provides an employer paid short-term disability plan. This program provides an employee with 60 percent of their pay beginning after 30 days of disability or the exhaustion of the employee's sick leave balance, whichever is later. This benefit expires six months after the beginning of the disability.

There were no significant reductions or changes in insurance coverage from the prior year. With the exception of the short-term disability program of the State Employees and Officials Insurance Fund settlements did not exceed insurance coverage in any of the past three fiscal years.

Changes in the balances of claims liabilities were as follows:

Amounts in Thousands

Fiscal Year	Liability at July 1	Current Year Claims and Changes in Estimates	Claim Payments	Liability at June 30
Risk Management:				
Liability Fund				
1997-98	$ 21,124	$ 7,936	$ 5,965	$ 23,095
1996-97	20,676	3,858	3,410	21,124
1995-96	19,764	3,699	2,787	20,676
Workers' Compensation				
1997-98	95,749	28,470	25,891	98,328
1996-97	83,202	37,980	25,433	95,749
1995-96	84,612	19,664	21,074	83,202
Employee's and Officials Insurance Fund:				
1997-98	10,285	60,571	60,123	10,733
1996-97	9,200	63,701	62,616	10,285
1995-96	9,160	56,753	56,713	9,200
University of Colorado:				
General Liability, Property, and Workers' Compensation				
1997-98	19,329	3,666	6,077	16,918
1996-97	18,366	7,441	6,478	19,329
1995-96	16,365	9,591	7,590	18,366
Medical Benefits Plan				
1997-98	5,761	30,957	28,816	7,902
1996-97	13,492	26,447	34,178	5,761
1995-96	15,008	22,611	24,127	13,492
Univ. of Colorado Health Sciences Center:				
Medical Malpractice				
1997-98	7,089	1,902	824	8,167
1996-97	7,427	878	1,216	7,089
1995-96	8,478	(166)	885	7,427
Housestaff Health Benefits				
1997-98	526	2,500	2,434	592
1996-97	473	2,544	2,491	526
1995-96	548	2,193	2,268	473
Department of Human Services:				
Workers' Compensation				
1997-98	1,951	-	381	1,570
1996-97	2,375	-	424	1,951
1995-96	2,918	-	543	2,375

Component Units

As of October 1, 1989, the University of Colorado Hospital Authority began self-insuring against malpractice claims in excess of coverage provided by the University of Colorado Self Insurance Risk Management Trust in which the hospital participates. The hospital has established an additional self-insurance trust fund for uninsured losses, funding of which is determined by an independent actuarial computation. At June 30, 1998 and 1997, the hospital's trust fund had investments of $134,000 and $417,000, respectively. The charge to expense for actual or potential self-insurance claims related to the additional self-insurance trust fund was zero during the years ended June 30, 1998 and 1997.

The hospital purchased insurance coverage from the University of Colorado Insurance Pool (UCIP) for workers' compensation, property, crime, auto and general liability until September 30, 1996. Beginning October 1, 1996 the hospital began using commercial insurance carriers instead of UCIP. The hospital believes that it has adequately provided for the liability, if any, that may develop while it was covered by UCIP.

The Colorado Water Resources and Power Development Authority maintains commercial insurance for most all risks of loss. Settled claims have not exceeded this commercial coverage in any of the past three fiscal years.

G. CONTINGENCIES

Primary Government

Most claims against the state are limited by the Colorado Governmental Immunity Act which sets upper limits of state liability at $150,000 per person and $400,000 per occurrence. Judgments awarded against the state for which there is no insurance coverage or which are not payable from the Risk Management Fund ordinarily require a legislative appropriation before they may be paid.

Numerous court cases are pending in which the plaintiffs allege that the state has deprived persons of their civil rights or inadequately compensated them for their property. In the aggregate, the monetary damages (actual, punitive, and attorney's fees) claimed in the civil rights cases would exceed the insurance coverage available by a material amount. The state believes it is highly unlikely that there will be actual awards of judgments in material amounts.

The state is a defendant in numerous lawsuits involving claims of inadequate, negligent, or unconstitutional treatment of prisoners and mental patients. In some of these suits, plaintiffs are seeking or have obtained certification as a class for a class action suit. Most of these cases seek actual damages that are not material but include request for punitive damages that may be material. There is also the potential that the courts may rule that the current conditions of confinement are unconstitutional.

The state is defendant in lawsuits by employees accusing the state of various infractions of law or contract. These include claims related to age and sex discrimination, wrongful termination, contractual agreements for paying of salaries based on parity and equity, and overtime compensation under the Federal Fair Labor Standards Act. The state does not believe that any of these cases are material to its financial operations.

Many state agencies enter into various grant and contract agreements with the federal government and other parties. These agreements generally provide for audits of the transactions pertaining to the agreements, with the state being liable to those parties for any disallowed expenditures. The state is contesting the disallowances related to such audits, and the outcome is uncertain at this time.

The Colorado Student Loan Program, in the event of adverse loss experience, could be liable for approximately 22 percent of the outstanding balance of loans in repayment status ($327.4 million), however, the probability of a material loss is remote.

The U.S. Environmental Protection Agency has, in several instances, either sued the state or given notice of the state's potential responsibility under CERCLA. This includes the School of Mines and Colorado State University, as well as other non-state parties. Issues have arisen because of costs associated with the cleanup of hazardous substances at several sites owned by the state. The governor, the Department of Public Health and Environment, the School of Mines, and the Office of Attorney General have entered into an agreement to manage the problem on a statewide level. The General Assembly has appropriated funds for remediation.

The U.S. Court of Appeals has ruled in favor of the Southern Ute Indian Tribe against numerous defendant oil and gas interest holders and production companies on ownership of coal bed methane gas production on the Southern Ute lands. If upheld on further appeal, ownership would change from taxable owners to the non-taxable Southern Utes. Decreases would occur in future severance tax collections and ultimately, the defendants may sue for refund of previous taxes paid if they are forced to relinquish proceeds to the Southern Utes for past production.

At June 30, 1998, the Lottery Division of the Department of Revenue had outstanding annuities of approximately

$696.2 million in the name of lottery or lotto prize winners. The probability that any of the sellers of these annuity contracts will default and that the state will have to pay the annuity itself is remote.

Various notes and bonds have been issued by state school districts which may impact the state. Colorado statutes provide that if a district indicates that it will not make the payment to bondholders by the date on which it is due, the state treasurer shall forward the amount necessary to make the payment to the paying agent and shall withhold state equalization payments to the defaulting school district for a period up to 12 months to cover the state's loss. Currently, notes or bonds valued at over $3.4 billion are outstanding. Of this amount, $2.2 billion is covered by private insurance.

The state's Department of Transportation is in the process of remediating its underground fuel storage tanks. It has been estimated by the department that its future costs will be approximately $20 million and that the process will not be completed until the year 2002. The department has also been sued by a contractor for $5.2 million for wrongful termination from a construction project, and by various property owners over the amounts due the owners after condemnation of their property by the department.

The state's Underground Storage Tank Advisory Committee has rejected the reimbursement for the clean-up of petroleum leaks discovered prior to December 22, 1988. Diamond Shamrock has sued the state for approximately $3.5 million of such unreimbursed costs. The state received an adverse ruling from the district court but the court of appeals reversed the district court. That ruling is currently under appeal to the state's supreme court. Whatever the outcome, the state cannot be held liable for any amount of money over what is available in the Underground Storage Tank Fund.

The State of Kansas has sued the state in the U.S. Supreme Court for alleged violations of the Arkansas River Compact. The case was bifurcated into a liability and a remedy phase. The Supreme Court ruled in favor of Kansas in one of its three claims. The case is now before a special master to decide the appropriate remedy. There has been a quantification of the amount of injury, in water, through 1994. Colorado and Kansas disagree about whether Kansas should be repaid in money or water. However, the state believes that the liability will not exceed $50 million even though Kansas has not claimed a specific dollar amount.

A taxpayer has sued the state for $11 million in corporate income taxes paid to the state for which they have demanded a refund. At issue is whether the taxpayer is an instrumentality of the Federal Government. If the state loses it will have to refund the entire $11 million.

The state has been sued in connection with a land transfer from the Department of Natural Resources to the Department of Corrections for expansion of the Rifle Correctional Center. The plaintiffs claim that county zoning and planning review is required, the Department of Natural Resources has not complied with statutory requirements in connection with the transfer, and that a fishing stream protection review by the Wildlife Commission is also required. The state has filed motions to dismiss which are pending.

A class action suit has been brought on behalf of minor children who attend public schools within the state. The complaint alleges that the statutory method of funding capital expenditures for public schools denies the student class constitutional rights guaranteed by the equal protection, due process, and educational clauses of the state constitution. Should the court find that the present school capital finance system does not meet the adequacy requirements of Article IX, Section 2 (Education Clause) of the state constitution, the state could incur substantial future costs to overhaul the school finance system.

The state believes it has a good chance of prevailing in these cases, but the ultimate outcome cannot presently be determined. No provision for any liability that may result has been made in the financial statements.

NOTE V. PENSION SYSTEM AND OBLIGATIONS

A. PLAN DESCRIPTION

Virtually all State of Colorado employees participate in a defined benefit pension plan. The plan's purpose is to provide income to members and their families at retirement or in case of death or disability.

Administration of the Plan

The plan, a cost-sharing multiple employer plan, is administered by the Public Employees' Retirement Association (PERA). PERA was established by state statute in 1931, and includes the State and School Division Trust Fund, the Municipal Division Trust Fund, and the Judicial Division Trust Fund. The authority to establish or amend plan benefits is retained by the General Assembly in accordance with Title 24, Article 51 of the Colorado Revised Statutes (CRS).

The state plan, as well as the other divisions' plans, are included in PERA's financial statements which may be obtained by writing PERA at 1300 Logan Street, Denver, Colorado, 80203.

Service Requirement and Termination

Employees who terminate before meeting the required years of service are refunded their contributions made to the plan plus interest. Employees terminating after meeting the service requirements may, if they desire, remain in the plan until eligible for retirement. Those withdrawing from the plan receive their contributions, interest on their contributions, plus an additional 25 percent of their contribution and interest. This terminates their individual accounts. The interest rate paid is set at 80 percent of the PERA actuarial investment assumption rate.

Defined Retirement Benefits

Plan members are eligible for retirement benefits at age 55 with 30 years of service, age 60 with 20 years of service, or at age 65 with 5 years of service. State troopers and Colorado Bureau of Investigation (CBI) officers are eligible for retirement benefits at age 50 with 25 years of service.

Monthly benefits are calculated as a percentage of highest average salary (HAS). HAS is one-twelfth of the average of the highest salaries on which contributions were paid, associated with three periods of 12 consecutive months of service credit. Service retirement benefits are calculated at 2.5 percent of HAS for each year of service up to a maximum of 40 years.

Reduced service retirement benefits are available at age 55 with 20 years of service, or at age 60 with five years of service credit. The benefit is calculated the same as a service retirement benefit, then reduced by 0.333 percent for each month before the eligible date for the full service retirement. Members are also eligible to receive reduced service retirement benefits at age 50 with 25 years of service with a greater benefit reduction.

Money Purchase Retirement Benefit

A retiring member may elect to withdraw their PERA account and receive an additional matching amount equal to 50 percent of their contribution plus interest, or receive a lifetime benefit based on the amount the member could withdraw. The withdrawal or the lifetime benefit is in lieu of the defined benefit.

Disability and Survivor Benefits

Members disabled, who have five or more years of service credit, six months of which has been earned since the most recent period of membership, may receive retirement benefits if determined to be permanently disabled.

If a member dies before retirement, their eligible children under the age of 18 (23 if a full-time student) are entitled to monthly benefit payments. If there are no eligible children, the member's spouse is paid the monthly benefit, and absent an eligible spouse, the financially dependent parents receive a survivor benefit.

B. FUNDING POLICY

Members and employers are required to contribute to PERA at a rate set by statute. The contribution requirements of plan members and affiliated employers are established under Title 24, Article 51, Part 4 of the CRS as amended. Members are required to contribute 8 percent of their gross salary, except for state troopers and CBI officers, who contribute 11.5 percent. Annual gross covered wages subject to PERA are gross earnings less any reduction in pay to offset employer contributions to the state sponsored IRC 125 plan established under Section 125 of the Internal Revenue Code.

The state contribution rate from July 1, 1997 to June 30, 1998 was 10.7 percent (12.3 percent for state troopers and CBI officers) of the employee's gross covered wages. The state paid $175.5 million, $169.4 million, and $162.5 million in Fiscal Years 1997-98, 1996-97 and

1995-96, respectively. These amounts were equal to the required contributions for those years.

B. OTHER RETIREMENT PLANS

Primary Government

Some employees of various institutions of higher education may be covered under other retirement plans. Presidents, deans, professors, and instructors in state educational institutions are enrolled in defined benefit plans such as the Teachers Insurance and Annuity Association, the Variable Annuity Insurance Corporation, or other similar plans.

Faculty members at the University of Colorado are also under Social Security. Faculty at Colorado State University were covered exclusively by PERA until May 1993. Faculty hired after that time are covered by one of several defined contribution plans. Faculty previously covered by PERA had the choice of converting entirely to the defined contribution plan or remaining in PERA for their service till May 1993, with service after that time credited to the defined contribution plan.

The state made contributions to other pension plans of $26.2 million and $24.0 million during Fiscal Year 1997-98, and Fiscal Year 1996-97, respectively. In addition, the state paid $34.4 million and $31.4 million in FICA or Medicare taxes on employees wages during Fiscal Year 1997-98, and Fiscal Year 1996-97, respectively.

PERA also offers a voluntary 401(k) plan entirely separate from the defined benefit plan. PERA members may make contributions of up to 18 percent of their annual gross salary, to a maximum of $9,500. Contributions and earnings are tax deferred. On December 31, 1997 the plan had net assets of $272.1 million and 16,391 accounts.

The Fire and Police Pension Association, a related party, was established to insure the financial viability of local government pension plans for police and firefighters. In Fiscal Years 1997-98 and 1996-97, the state treasurer transferred $28.4 million and $70.7 million to the association to enhance its actuarial soundness. This included the state's cost for the accidental death and disability insurance policy the Association provides to volunteer firefighters.

Component Units

Employees of the Colorado Uninsurable Health Insurance Plan, and the Colorado Water Resources and Power Development Authority are covered under the State Division of PERA.

The University of Colorado Hospital Authority participates in two retirement plans, which cover substantially all of its employees. The hospital maintained a noncontributory defined benefit pension plan for its employees through March 1995. Under this plan, contributions credited to each covered employee's account were based on a percentage of compensation earned by the employee. Vesting under this plan is based on length of service. Benefits are payable as a lump sum upon retirement or separation or under several annuity options upon retirement.

As of March 31, 1995, a final contribution was credited to the accounts of all covered employees of record on that date and this plan was frozen. Employee accounts continue to accrue interest based on the Thirty-Year Treasury Constant Maturities rate, and covered employees not fully vested in this plan will continue to earn credit toward vesting. As the hospital acts in a fiduciary capacity for this plan and has the ability to amend the plan at its discretion, the plan's assets and related reserves are included in the financial statements as a pension trust fund.

As of April 1, 1995, the hospital amended its retirement plan based on its ability to withdraw from the Old Age, Survivors, and Disability Insurance (OASDI) component of the Federal Insurance Contributions Act (FICA) by virtue of its operation under legislatively granted state authority. The hospital and its employees still contribute to and participate in the Medicare component of FICA. The hospital's amended plan is composed of three distinct components: a Basic Pension Plan, an Investment Account, and a Matching Account.

The Basic Pension Plan is a defined benefit plan with benefits payable based on length of service and average compensation earned by the employee during the five most highly compensated calendar years of service after 1994. Vesting under this component is based on length of service. The hospital's funding policy is to contribute amounts at least equal to the minimum funding requirements of ERISA.

The hospital made contributions of $6,300,000 and $5,800,000 to its defined benefit plans in Fiscal Years 1997-98 and 1996-97, respectively. Annual cost is determined using the projected unit credit actuarial method. Plan assets at fair value were $48,206,000 at June 30, 1997, and the projected benefit obligation was $46,652,000.

The Investment Account is a qualified defined contribution retirement plan under the provisions of Internal Revenue Code (IRC) Section 401(a). Employees are required to contribute 6.2% of their gross compensation, which is equivalent to what their OASDI contributions were under FICA participation. Employees are always fully vested in this component of the plan. Total compensation covered in this plan for the years ended June 30, 1998 and 1997 was approximately $82,814,000 and $77,318,000, respectively. The hospital is required by law to provide an additional make-up contribution for certain part-time employees equal to 1.3% of their compensation until they are fully vested in the Basic Pension Plan. Since April 1, 1995, make-up contributions made by the hospital have approximated $95,000.

The Matching Account is a qualified single-employer tax-deferred annuity plan under the provisions of IRC Section 403(b). Employees are eligible to contribute a percentage of their gross compensation, tax-deferred up to legal limitations established under the IRC. In addition, the hospital matches employee contributions 100% on the first 3% of gross compensation contributed. Employees are always vested 100% in their contributions; however, the hospital's matching contributions are subject to a five-year vesting schedule. The hospital's matching contributions for Fiscal Years 1997-98 and 1996-97 were approximately $1,600,000.

The hospital has made contributions to PERA in accordance with actuarially determined funding amounts for their employees who are still state employees. Pension expense related to state employees was $282,000 and $353,000 for Fiscal Years 1997-98 and 1996-97, respectively.

There were no transfers from PERA to the hospital's pension plan for previous state employees who have transferred their benefits to the hospital's pension plan for the years ended June 30, 1998 and 1997.

D. EMPLOYEE DEFERRED COMPENSATION

The state initiated a deferred compensation (457) plan for state employees in 1981. This plan has a third party administrator, and all costs of administration and funding are borne by the plan participants. Investments and accumulated earnings of the plan at June 30, 1998, and June 30, 1997, totaled $288.1 million and $245.7 million respectively. The state has no liability for losses under the plan but does have the duty of due care that would be required of an ordinary prudent investor.

E. POST RETIREMENT HEALTH CARE AND LIFE INSURANCE BENEFITS

Health Care Program

The PERA Health Care Program began covering benefit recipients and qualified dependents on July 1, 1986. This benefit was developed after legislation in 1985 established the Program and the Health Care Fund. Under this program, PERA subsidizes a portion of the monthly premium for health care coverage. The benefit recipient pays any remaining amount of that premium through an automatic deduction from the monthly retirement benefit. During 1997, the subsidy was $115.00 for those with 20 years of service credit and reduced by $5.75 for each year under 20.

The Health Care Fund is maintained by a contribution of 0.8 percent of covered salary. The state paid $13.1 million, $12.5 million, and $12.0 million in Fiscal Years 1997-98, 1996-97 and 1995-96, respectively. Monthly premium costs for participants depend on the health care plan selected, the number of persons being covered, Medicare eligibility, and the number of years of service credit a retiree has. PERA contracts with a major medical indemnity carrier to administer claims for self-insured plans, and with health maintenance organizations providing services within Colorado. During 1997 there were 37,388 participants, including spouses and dependents, from all contributors to the plan.

Life Insurance Program

PERA provides its members access to two group decreasing-term life insurance plans offered by Prudential and Rocky Mountain Life. Active members may join one or both plans, and they may continue coverage into retirement. Premiums are paid monthly by payroll deduction.

Other Programs

Separate post-retirement health care and life insurance benefit plans exist in some state colleges and universities but are small in comparison to the PERA plan for state employees. The state has no liability for any of these post-retirement health care and life insurance plans.

NOTE VI. SUBSEQUENT EVENTS

A. DEBT REFUNDING

Component Units

On January 7, 1998 (after the close of their fiscal year on December 31, 1997) the Colorado Water Resources and Power Development Authority advance refunded portions of their 1991A and 1992A Small Water Resources Revenue Bonds. They defeased $11,170,000 with the issuance of $12,500,000 Small Water Resources Revenue Bonds 1997 Series B dated January 1, 1998. The authority reduced its aggregate debt service payments by approximately $940,000 over the next 15 years and obtained an economic gain of approximately $656,000.

B. PENSION PLAN CHANGES

Effective July 1, 1998, plan members within PERA became eligible for retirement benefits at age 50 with 30 years of service, age 60 with 20 years of service or at age 65 with 5 years of service. In addition, the penalties for earlier retirements were reduced, and the state's contribution rate was reduced by one-tenth of one percent.

Effective July 1, 1998, statewide elected officials, legislators, most of the governor's staff, and the staff of the house and senate may choose to join a defined contribution plan in lieu of PERA. Those that join this plan will self-direct the investment of the employee and employer's contributions, and be fully vested in those contributions form the start of the plan. The contribution rates are the same as for the PERA plan, although no survivor, disability, or health care benefits will be provided to those choosing this plan.

C. NOTE ISSUANCE

On July 1, 1998 the state treasurer issued $150 million of Tax Revenue Anticipation Notes. The notes are to be repaid in June 1999.

D. SALES TAX REFUND

On September 16, 1998, in special session, the General Assembly passed, and the Governor signed, a bill to provide a state sales tax credit of approximately $565 million on 1998 income tax returns properly filed on or before October 15, 1999. The purpose of this credit is to liquidate the $563.2 million TABOR Refund Liability booked by the state on June 30, 1998.

However, in the regular 1998 session the General Assembly placed a referendum on the ballot which would allow the state to keep $200 million a year for five years to be spent on roads and school buildings. If passed by the voters at the general election on November 3, 1998 then only $365 million will be refunded on the 1998 income tax returns.

If the refund amount is $565 million, then beginning in January 1999, each adult full-year resident filing a single return will receive a credit of $142 if their federal adjusted gross income (AGI) is less than or equal to $20,000, or $195 if their AGI is greater than $20,000 but less than or equal to $50,000, or $276 if their AGI is greater than $50,000 but less than or equal to $95,000, and $384 if their AGI is greater than $95,000.

If the refund amount is $365 million, then beginning in January 1999, each adult full-year resident filing a single return will receive a credit of $92 if their federal adjusted gross income (AGI) is less than or equal to $20,000, or $126 if their AGI is greater than $20,000 but less than or equal to $50,000, or $178 if their AGI is greater than $50,000 but less than or equal to $95,000, and $248 if their AGI is greater than $95,000.

All amounts are doubled for a surviving spouse or two individuals filing a joint return.

STONE SCHOOLHOUSE—NEAR RED WING, COLORADO